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TOBACCO PROGRAM IMPROVEMENT ACT OF 1985

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

ON

S. 1418

A BILL TO AMEND THE AGRICULTURAL ADJUSTMENT ACT OF 1938 AND THE AGRICULTURAL ACT OF 1949 TO IMPROVE THE TOBACCO PROGRAM, AND FOR OTHER PURPOSES

JULY 22, 1985

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TOBACCO PROGRAM IMPROVEMENT ACT OF 1985

MONDAY, JULY 22, 1985

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, pursuant to notice, at 10 a.m., in room 332, Russell Senate Office Building, Hon. Jesse Helms (chairman of the committee) presiding.

Present: Senators Helms, McConnell, Zorinsky, and Dixon.

STATEMENT OF HON. JESSE HELMS, A U.S. SENATOR FROM NORTH CAROLINA

The CHAIRMAN. The committee will come to order. I think it's no secret that the purpose of today's committee hearing is to consider S. 1418, the Tobacco Program Improvement Act of 1985.[1] This legislation is intended to restore stability to the tobacco program, to improve its operation for family farmers, and to save the taxpayers literally billions of dollars from potential losses, which, absent legislation of this sort, could very well occur.

Now, if Congress fails to address this opportunity, or, to put it another way, if Congress fails to comprehend what is at stake, the consequences could be enormous for everyone concerned: The tobacco growers, the tobacco industry, and especially the taxpayers.

All of this is well known to everyone that has been willing to look objectively at the problem and its history, and the factors that led to the situation that exists today.

I welcome everyone to this hearing. I realize that many of you have traveled considerable distances to come this morning. You are leaders in the tobacco industry, and your presence today emphasizes your desire to make this tobacco program work.

I'm personally very grateful to the many dedicated individuals and groups of people that have been working toward this legislation for more than a year. I am particularly pleased with the remarkable cooperation and hard work by everyone involved in developing this plan, and I know that I am joined in this by hundreds of thousands of small family tobacco farmers who appreciate what you are trying to do.

In attempting to address the fundamental problems of the tobacco program, we approached these negotiations with the realization that any workable solution must do three things: One, get out from under the burden of mounting producer-held inventories; two, take appropriate steps to ensure that we don't load the inventories back up in the future; and three, make sure that the taxpayers do not become burdened with many billions of dollars worth of excess tobacco inventory that would have little or no value.

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[1] See p. 102 for a reprint of S. 1418.

The Chair believes this legislation addresses these concerns, and it also seems to be balanced between companies and growers. In simple terms, there are four main components of this bill: Two in favor of the growers, two in favor of the companies, and all in favor of the taxpayers.

The growers benefit from the manufacturers agreeing to: One, buy out the existing inventory, and two, split 50-50 with them any future no net cost assessments. In return, the manufacturers will be able to, one, buy tobacco in the future with a lower price support, and two, have some input in determining the marketing quotas.

In summary, this bill passes the litmus test for 1985 farm legislation. It has a market oriented price support and quota determination mechanism. It contains provisions designed to get rid of the excess inventories of the commodity under loan and make sure it doesn't build back up in the future.

The ultimate long-range goal is to minimize the Government's losses that could occur as a result of the bankruptcy or loss of the entire tobacco program.

I say again, we need unity in the tobacco family as never before. I hope everyone can get together and support this legislation. Whether that will be possible may very well determine the survival of the tobacco program, as we know it today.

Our leadoff witnesses are two distinguished Senators from Kentucky, both of whom have been so helpful, cooperative, and active in the development of this legislation. The distinguished senior Senator from Kentucky, Wendell Ford, has been helpful throughout my role as chairman of the Agriculture Committee, and Mitch McConnell, the junior Senator from Kentucky, hit the ground running when he arrived in Washington and has been a strong advocate of the tobacco farmer, as well. So in that order, Mr. Ford and Mr. McConnell, we will be pleased to hear from you. I want to invite both of you, if your time permits, to stay as long as you can. Senator Ford.

STATEMENT OF HON. WENDELL FORD, A U.S. SENATOR FROM KENTUCKY

Senator FORD. Thank you, Senator Helms. First, let me thank you sincerely for the growers and those connected with the tobacco industry in Kentucky for your diligence in this matter, and your tenacity at times, to be sure that it stayed together.

Mr. Chairman, I would like to submit for the record my prepared remarks which review the many months of work that has brought the introduction of this bill, and then I will limit my remarks to one specific area of concern.

The CHAIRMAN. Without objection, the remarks will be put in the record.[1]

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[1] See p. 67 for the prepared statement of Senator Ford.

Senator FORD. Mr. Chairman, I appreciate being here today and, like you, this opportunity to attempt to clear up some misconceptions that have developed as it relates to the specifics of this legislative package.

Much has been written in the press about the, quote, "cost," end of quote, associated with this bill, and the so-called giveaway of tobacco to the companies. However, what has failed to be brought to the public forefront are the realities associated to both the grower and the Government if something is not done to address the surplus of producer-held tobacco inventories.

An important aspect is being overlooked. There are two components associated with this bill that the press has labeled as costing the Goverment money: That is Flue-cured and burley tobacco.

Any cost to the Government, as it relates to Flue-cured tobacco, comes not from this bill, but from legal, normal, and already approved action by the Commodity Credit Corporation.

The CCC has exercised its authority in discounting pre-no-net-cost tobaccos. The CCC has approved varying degrees of discounting Flue-cured tobacco in each of the last 2 marketing years. In fact, the Commodity Credit Corporation had approved the full price rollback of 90 percent, while the USDA was assisting the Flue-Cured Stabilization Corporation in carrying out the plan before this bill was even considered.

S. 1418 is not a necessary element of discounting the pre-no-net-cost tobacco. What S. 1418 does is legally bring the tobacco companies together so that the already approved plan may be implemented.

The CCC has, in their authority, the right to discount old, aging inventories of tobacco placed under loan prior to 1982. The CCC has the same authority to do so for other farm commodities, and has exercised that right in the past.

As it relates to any controversy associated with this action, I, for one, am tired of tobacco farmers being singled out and not being allowed the same consideration afforded all other farmers. So as a matter of principle, the reduction by the CCC of existing Flue-cured inventories has already been sanctioned, and does not need congressional approval.

The bill does call for the Secretary of Agriculture to relieve the burley producers from the liability of the drought damaged 1983 crop. Unless one has a short memory, the effects of the worst drought in 50 years on all farm commodities need not be explained.

The legislation calls for the burley farmer to put up every last cent they have in their no-net-cost account, about $140 million to be used to reduce the value of that crop by about 25 percent. The Secretary is then directed to use every available means in his power to move that tobacco into the world market. Therefore, the marketplace, the only true indication of value, will determine the loss, if any, to the Government.

I point out that the marketplace does not lie, and the value placed on the tobacco establishes worth, which is the value of the commodity whether you sell it or not, and unless the CCC wants to be a speculator of tobacco, my advice would be to sell it for what it is worth.

Some have suggested that the tobacco manufacturers pay for the 1983 crop of burley tobacco. A point that has failed to make the headlines of the press is that the original plan called for the burley growers to use their no-net-cost money to pay the carrying costs associated with the 1984 crop.

The terms were changed—not for the growers, but in an effort to move the poor quality 1983 crop. The manufacturers simply did not want the damaged leaf, which the growers, through no fault of their own, are liable. Instead, the terms on the 1983 and 1984 crops were changed so that the farmers would not have to use the $140 million for carrying costs, but would be used to lower the CCC investment in the 1983 crop. In effect, the $140 million has been given by the companies for the 1983 crop without taking title to even a single pound.

Another misconception is that the manufacturers are stealing the tobacco from the Government. Well, for burley tobacco, I can tell you that this simply is not the case. If you have asked why only four of the six cigarette manufacturers have agreed to participate, it might be that the tobacco they will ultimately purchase will cost better than $2.40 a green pound. Some will cost even more. To put it in perspective, that's a full dollar more than they can buy it off the auction floor if this legislation does not pass.

To put it differently, the only way that the cigarette manufacturers can earn anything on their investment of purchasing overpriced burley tobacco is to buy it from the farmers, and do it next year, and the next year, and the next year, and when they finally break even on their investment, the oversupply of loan inventory will no longer be plaguing the farmer. More importantly, without the burden of the excess loan stocks, the farmer should receive the full advantage of a pure marketplace, one that is not distorted, as it is today, with the multibillion farm loan inventory.

Much has been said about the cost of this plan to the Government, and the accountants at CCC will show a loss. Yet, one must put the net effect on the budget in perspective; this Government is operating under a cash-flow crunch, income is not keeping up with expenses.

So I ask the question, what's better for the Government's Treasury? Not passing this bill and receiving just enough money to cover the costs of a huge investment, made over time, that they will never recover, or pass this bill and receive a check flow to tobacco manufacturers and get back most of the investment this Government has made in its tobacco program wiping the slate clean once and for all and implementing a plan that should never allow this predicament to happen again.

I know that this bill is not considered perfect by all parties concerned, but we have a problem of mammoth proportions with the tobacco program, and to solve it takes sacrifice by everyone. The time has come to solve the dilemma of the program once and for all. I hope that we can look at the merits of S. 1418 today without confusing the issue with misconceptions.

Mr. Chairman, I hope we can achieve what we are attempting to do through this legislation, and I appreciate your having this hearing, and look forward to hearing the witnesses and getting on with what is in the best interests of the people we represent.

The CHAIRMAN. Thank you, Senator Ford.

And now, Senator McConnell.

STATEMENT OF HON. MITCH McCONNELL, A U.S. SENATOR FROM KENTUCKY

Senator McCONNELL. Thank you, Mr. Chairman. It's a pleasure to be here today with my senior colleague, Senator Ford. As we all three know, we've spent a good deal of time on this issue over the last few months.

The chairman, I must say, has been enormously patient and understanding in dealing with all the commodities before our Agriculture Committee over the last few months.

This is a difficult year for farming, in general, and a particularly difficult year for tobacco.

The CHAIRMAN. If the Senator will yield, last week I arrived at what I think is the proper definition of purgatory.

Senator McCONNELL. Being chairman of the committee?

The CHAIRMAN. It's being chairman of the Agriculture Committee in 1985.

Senator McCONNELL. Well, it could be worse, Mr. Chairman, you could be the least senior Republican.

Mr. Chairman, there's no doubt that the tobacco growers in my home State of Kentucky and your State of North Carolina, and other States in the Southeast, are facing a future that is, at best, bleak.

The tobacco program that was enacted in 1933 has been a way of life for thousands of our farmers and has provided a stable and dependable source of income for many of these farmers who had no other means of income.

Now, as a result of artificially high tobacco prices and unprecedented surpluses of farmer-owned tobacco, the program is in very real danger of collapsing under its own weight.

Under these difficult circumstances, the entire industry banded together to produce a formula for saving the program that has, historically, been the most successful Federal commodity program. I was pleased to join you, Senator Ford, and others of our colleagues, in introducing this legislation that is the basis for our hearing today.

We will hear from the various segments of the tobacco family who will detail the agreement which brought about the Tobacco Program Improvement Act of 1985, but I would like to highlight some of the most important parts of this legislation.

This legislation addresses the real problem with the current program: The huge surplus of tobacco in inventories which is breaking the backs of our growers. Tobacco companies have agreed to purchase these millions of pounds of tobacco over a 5- to 8-year period. In return, the growers have agreed to a price-support formula, tied to market prices.

I must say, Mr. Chairman—and we have been involved in this every day—these price support levels are more conservative than most of the other commodities which we have been discussing in this committee in the last few days.

In addition, tobacco growers will continue to be the only commodity group in the entire agriculture industry which pays for its own program through an assessment. In 1985, and subsequent crop years, tobacco companies will share equally in these assessments.

The tobacco industry is united, as never before, on this plan, although some are not entirely on board. Others have introduced their own proposals; still others have proposed to eliminate the tobacco program altogether.

The testimony we will hear today, I'm sure, will show that the Tobacco Improvement Act of 1985 is the only realistic vehicle which makes the long-term changes to the tobacco program, and I'm extremely happy to be a supporter of that bill.

I might say, Mr. Chairman, in all these months that the tobacco family has tried to come together behind this proposal, nobody has yet devised the perfect scheme, and we need to pull together, as you said in your opening statement. Now is the time to unify on behalf of the entire family.

I have not yet heard a better solution to the problem than this one. We need to put aside whatever minor differences some of us may have to this or we will certainly lose the entire program, which benefits no one.

Again, I want to commend you for the leadership that you have shown through these difficult months on this tough issue. We really couldn't be at this point without your leadership.

The CHAIRMAN. Thank you very much for an excellent statement—both of you. I will tell you this, I would have been in a bad place with a broken back if it hadn't been for you two fellows. I appreciate it.

Without objection, a statement by my distinguished colleague from North Carolina, John East, will be inserted in the record.[1]

Let me suggest, so that we can all be in a group while we testify, if the two Senators will move over to these two seats, we will call the first panel which happens to be—just by accident—from North Carolina.

Senator FORD. Mr. Chairman, if there's one thing that I have learned in my 10 years here, seniority works everywhere. I don't object to it—I just want to get to it.

The CHAIRMAN. Now you've stopped preaching and you've started meddling.

Fred Bond, general manager of the Flue-Cured Tobacco Cooperative Stabilization Corporation in Raleigh, will come and take this seat, please; Bill Carter, a very fine friend, president of North Carolina Tobacco Growers Association in Raleigh; Jim Oliver, who is master of the State Grange in North Carolina; John Parker, who is commodities director of the North Carolina Farm Bureau Federation of Raleigh; and also the commodity director of the South Carolina Farm Bureau, Joe Stancil.

We are delighted to have you five gentlemen, and you may proceed. We have a little procedure around this place: We always tell witnesses that we know you have a fine statement prepared, and it will be printed in the record in full, and if, in your judgment, you should choose to summarize it and so forth, that will be fine—but whatever pleases you.

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[1] See p. 69 for the prepared statement of Senator East.

You may proceed, Fred; glad to see you.

STATEMENT OF FRED G. BOND, GENERAL MANAGER, FLUE-CURED TOBACCO COOPERATIVE STABILIZATION CORPORATION, RALEIGH, NC

Mr. Bond. Thank you, sir.

I'm Fred Bond, general manager of the Flue-Cured Tobacco Cooperative Stabilization Corporation of Raleigh. And, as suggested, Mr. Chairman, I will summarize the statement which I have already sent to the committee.[1]

Senate bill 1418 has been introduced to establish a viable tobacco program for the future. This legislation provides for basic changes in the tobacco program regarding price support levels, including adjustments in future years, determination of quotas, purchase requirements of buyers, sharing in assessments, purchase of old crop stocks, disaster crop designations, investment of tobacco inspection fees, plus an amendment regarding the tax treatment of contributions and assessments. This bill has been a compromise by all segments of the tobacco industry.

Stabilization supports this legislation, in concept, but has strong objections to any provisions that would use any assessment funds paid by the Flue-cured growers during the 1982 through the 1984 crops of Flue-cured tobacco that are in excess of amounts needed to offset losses of CCC, with respect to those crops to offset losses of CCC with respect to burley, the 1982 through 1984 crops; and the other point that I would like to make, Stabilization would object to any price support formula that does not provide for reasonable and justifiable escalation.

That is our position.

The Chairman. Thank you, Fred.

Now, Billy. Welcome to Washington.

STATEMENT OF W.L. CARTER, JR., PRESIDENT, NORTH CAROLINA TOBACCO GROWERS ASSOCIATION, RALEIGH, NC

Mr. Carter. I am W.L. Carter, Jr., a tobacco farmer from Scotland Neck, NC, and president of the Tobacco Growers Association of North Carolina. We are a commodity association representing both Flue-cured and burley tobacco farmers in North Carolina.

While membership in our association is open to both active and nonactive tobacco farmers, and to all others interested in North Carolina tobacco, the overwhelming majority of our members are full-time tobacco growers who depend on this crop for their livelihood. We appreciate the opportunity to express our views on S. 1418.

At our annual meeting on November 9, 1984, attended by as many active tobacco growers as I have ever seen at a meeting, the following resolutions were adopted by unanimous vote: We authorize our board of directors to immediately request Congress to make legislative changes that will be effective for the 1985 Flue-cured and burley crops that will accomplish the following purposes:

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[1] See p. 70 for the prepared statement of Mr. Bond.

One, lower price supports to a level that will make us price-value competitive in the world market. In no event should this level be lower than 115 percent of the accepted USDA's cost of production figures, exclusive of land and quota. The price-support formula should provide enough flexibility to avoid the possibility of any individual grade becoming unrealistically priced.

Two, provide Government assistance to reduce current CCC inventories to manageable levels; the stock reduction should be done in such a way as to have minimum impact on 1985 and subsequent crops.

Three, provide for the cost of future assessments required to operate the no-net-cost program, to be shared equally between growers and the Federal Government or the purchasers.

It is obvious, of course, that legislation, to be effective for the 1985 Flue-cured crop, is no longer possible. However, we are still hopeful that the Secretary of Agriculture will approve a workable administrative price rollback for this year's Flue-cured crop, and that legislation can be passed in time for the 1985 burley crop.

Our association has been an active participant in all negotiations that led to the drafting of S. 1418, and we have based our positions on the principles in our resolutions. We have continued to receive endorsements from our members for these basic principles and, thus, believe they still represent the views of the active tobacco growers.

Gentlemen, we believe S. 1418 accomplishes the objectives of our members, endorsed on November 9, 1984, and, thus, we strongly support the bill. We believe it deals with the major problems facing our industry, and believe that once it is in effect, we will begin to see a significant turnaround of this industry. Certainly, none of us want to see a continuation of the trends we have experienced in recent years: Drastic quota cuts, increased stocks going under loan, and assessment rates soaring to double digits. In my opinion, unless this legislation is passed, that is exactly what we will see, and it will be the beginning of the end of a tobacco program that has meant so much to so many of us.

Obviously, if we were writing the bill alone, and we didn't have to worry about what Congress would accept, we would change some things, but we know that legislation is the art of compromise, and we are prepared to support the bill, as it is today, if, in your judgment, this represents the compromise that you have the best chance of selling to your colleagues.

There are three provisions in the bill that our association wishes to comment on. First, we believe the penalties proposed for individual companies who fail to purchase at least 90 percent of their intended purchase should be imposed even if the aggregate purchases by all companies equal 90 percent of the intended purchases.

Since the bill provides that stocks purchased from the 1984 inventories of the producer associations apply toward their intended purchases, we don't see this as an unreasonable requirement. I think all of us want to see a system that keeps supply and demand in a reasonable balance and avoid any appearance that the system could be manipulated to the advantage of anyone.

Second, we have expressed our preference for an escalation formula that was based on equal weight given to changes in the rolling 5-year market average, and an index of prices paid by tobacco farmers. We believe tobacco growers must have insurance against the effects of rampant inflation, such as experienced in the seventies. Having said that, however, let me add that our association has, from the beginning, been equally concerned that we did not lock ourselves into a formula that would, in a short time, put us right back where we are.

We are aware of the mood of this Congress regarding price-support levels, and have heard the cautions you have given us as to what you might be able to sell in the way of a price-support escalation formula. Therefore, if it is your judgment that the current weighing between market average and the index of prices paid by tobacco farmers makes this bill more acceptable to your colleagues, we are prepared to accept it.

Third, we believe the section of the bill dealing with the review of tobacco grading system and disaster crop designation is extremely important. Once again, we believe there must be a way to provide farmers some protection in the event of a natural disaster. At the same time, I think we all know we have got to avoid another situation like the 1983 burley crop.

We do not propose to have the answer to this problem. It is our strong feeling, however, that the only viable way to deal with this is on an individual, pile by pile of tobacco, and by rigidly adhering to grade standards. We do not believe that you can designate disaster areas, regardless of the size. I have seen disaster tobacco on the warehouse floor from farms where I know the growing conditions were almost ideal. We believe the present grading system provides sufficient grades, with standards that enable a grader to accurately reflect the true market value of that pile of tobacco. However, we don't believe it is being done consistently.

In conclusion, our association wants to express appreciation to Senator Helms and Senator Ford for the leadership they have provided in these troubled times. We also want to thank your personal staff and those of the Senate Agriculture Committee. They have worked long and hard with us, and we could not have asked for better cooperation. We believe the result is a bill that we can all be proud of and that we are pleased to support.

I would be remiss if I did not make a final plea to you to continue your conversations with Secretary Block to try to convince him to approve a workable administrative price rollback for the 1985 Flue-cured market. We strongly feel that without it, we are going to see a very flat market. We could all well be back up here, en masse, in about 3 weeks, demanding that something be done to avoid the continuing flow of tobacco to Stabilization.

Thank you for allowing us to express our views on S. 1418, and we hope you will move it through the Senate as rapidly as possible.

The CHAIRMAN. Thank you for a fine statement. It may interest you that just before I walked into this committee room, I was in consultation on the telephone with USDA, and specifically with Dan Amstutz, about yet another possible remedy to the problem.

Since we began, we have been joined by the distinguished minority leader of this committee, Ed Zorinsky of Nebraska. Let me say publicly that no chairman was ever blessed with a finer working companion than Senator Zorinsky. We don't belong to the same party, but we have the same goals about this country and about serving the farmers of this country.

I appreciate your coming, Ed.

Senator ZORINSKY. Thank you, Mr. Chairman.

The CHAIRMAN. And we have with us now the President pro tem of the Senate, the distinguished senior Senator from South Carolina, Strom Thurmond, who has been so helpful throughout all the negotiations this year.

Senator, I hope you will address yourself to this legislation. Say anything that you wish; we appreciate your coming, and we are honored to have you here.

Senator THURMOND. Senator, I can include my statement in the record, if you are pushed for time; if not, I can deliver it, whichever you think better.

The CHAIRMAN. Whatever the Senator wishes.

STATEMENT OF HON. STROM THURMOND, A U.S. SENATOR FROM SOUTH CAROLINA

Senator THURMOND. Mr. Chairman, first, I want to thank you and congratulate you for the outstanding leadership you have provided to the Agriculture Committee. I especially wish to thank you for the interest you have taken in the tobacco program—tobacco is the No. 1 money crop in South Carolina, and very important to our farmers.

The tobacco program is one of the most successful and cost effective of all Federal Government agricultural commodity programs. The program has worked well for many years, successfully fulfilling the goals it was designed to meet. It has ensured an adequate, but not excessive, supply of high quality, domestically produced leaf. More importantly, the program has made it possible for thousands of small farmers to remain on the farm.

Mr. Chairman, despite the long history of success, the tobacco program has reached a critical point, and is in urgent need of adjustment.

Because of previous disaster years and a high support price, not all tobacco brought to market has been purchased by the tobacco companies, with the result that a large amount is currently being held under loan by the Flue-cured Stabilization Cooperative.

These substantial stocks in storage have driven down the effective market-clearing price of tobacco below the support price. Consequently, when the tobacco markets open in a few days, the expectation is that a large quantity of the 1985 crop will also go under loan and into the storage stocks. Additionally, the high domestic prices are causing tobacco purchasers to turn toward importers for increasing amounts of their tobacco leaf needs.

This vicious spiral has reached a critical point. Since the tobacco farmers are bound by the No-Net-Cost Assessment Act, they must pay increasingly high assessments to cover the carrying costs of the growing amount of stored tobacco.

Due to these increasingly prohibitive assessments, the tobacco farmers' margin of profit has been seriously eroded. Clearly, this cruel, escalating cycle must be stopped. In order to accomplish this, the support price must be lowered to a market-clearing level, and the excess stocks must be removed.

Thus, Mr. Chairman, our task in Congress is clear: We must find a formula that will provide for the removal of these burdensome stocks, and a more realistic support price which will protect tobacco farmers adequately, without causing future buildups in these leaf inventories.

We must determine the flaws in the program that contributed to this situation in the first place, and correct these flaws. In order to accomplish these goals, we have solicited the advice of, and listened to those most intimately involved with, and most expert on the tobacco program.

The legislation we are discussing here today is the result of a cooperative, bipartisan effort on the part of the tobacco growers, manufacturers, various farmer organizations, Members of Congress, and administration officials. These people have met many long hours to hammer out a workable solution. I believe that this legislation we have before us today is such a solution.

S. 1418, which the distinguished chairman introduced last week and which I was honored to cosponsor, seeks to solve the immediate problem by lowering the price support of tobacco and allowing the manufacturers to enter into agreements to buy out the tobacco in stocks.

However, the bill goes much further than these immediate problems, and corrects some of the flaws that led to the current situation. It does this by broadening the responsibility for the program to include the tobacco manufacturers in a more active role.

For example, manufacturers will share assessments equally with the farmers, giving both incentives to keep the tobacco stock level from rising to burdensome levels. At the same time, future support prices for tobacco will be lower than they would be under current law so that more tobacco will be sold. Also, a committee will be constituted to examine the means by which disaster crops are declared.

There are, however, some remaining problems with this legislation. I hope the committee will carefully consider today's testimony of the South Carolina Farm Bureau. While the South Carolina Farm Bureau supports the overall concept of the legislation, in their testimony today they will outline their concerns about several provisions in the proposed bill.

Mr. Chairman and members of the Agriculture Committee, it is of vital importance to American tobacco farmers that this legislation be passed as soon as possible. Delaying any further could cause a collapse of the tobacco program. The ultimate victims will be thousands of small family farmers and their families who depend on income from tobacco for a substantial portion of their livelihoods.

Failure to put this program on a sound footing would threaten the agricultural economies of several Southeastern States, and adversely affect our national trade balance. We simply cannot afford to let this happen, and it need not happen if timely action is taken.

I urge my colleagues on the Agriculture Committee to quickly report this legislation so that it may be promptly considered by the Senate and enacted into law.

Mr. Chairman, I thank you very much for allowing me to testify, and I want you to know that I stand ready to assist you; and again, I applaud your outstanding leadership in this matter in which you so richly deserve it, as well as many other important matters.

The CHAIRMAN. Thank you very much, Mr. President. I appreciate your coming.

Senator THURMOND. I have another engagement to go to.

The CHAIRMAN. I know that you do, and it was good of you to share this time with us.

Now, we have our good friend, Jim Oliver, who is master of the State grange. I know you didn't mind deferring to the President pro tem of the U.S. Senate.

STATEMENT OF JAMES R. OLIVER, MASTER, NORTH CAROLINA STATE GRANGE, RALEIGH, NC

Mr. OLIVER. Mr. Chairman, I am honored, because the distinguished Senator from South Carolina is also a member of our organization in South Carolina, and I am proud to have him as a member.

Mr. Chairman and members of the committee, I am Jim Oliver, a farmer, master of the North Carolina State Grange, an officer of the National Grange, a member of the Agriculture Committee of the National Grange, and the National Grange's legislative representative on tobacco issues.

We appreciate this opportunity, Senator, to appear before you today and express our views on S. 1418.

I have submitted a copy of my prepared statement, Senator, and I will try to review it, as best I can.[1]

At this time, I feel that I must clear the record on a couple of points that have been expressed in the news media from time to time. First, there was not complete agreement, and I think some people have also stated that today, among all the participants in the many long hours of sessions that we deliberated, trying to arrive at this bill.

Second, the grange has not abandoned this bill. That has been stated in the press many times, and I want that made clear—we have not abandoned this bill. We do not like some of the provisions of this bill, and I would like to take this opportunity to express those views.

Mr. Chairman, I have expressed to you in a letter, some of our points of disagreement, and since that time we have had other points of disagreement, and I will go over those at this time.

At the final meeting of all parties involved in negotiations, we decided there were two options, option 1 and option 2, as it relates to the establishment of the price supports.

Option 1, which was agreed to by the companies, was based on a price support of 95 percent of our average market prices for 3 of the past 5 years, with the high and low years excluded. The average market price would be reduced by 30 cents for the 1981 through 1984 crops. A price floor of $1.40 for Flue-cured and $1.45 for burley would be in effect for the 1986 through 1990 crops.

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[1] See p. 74 for the prepared statement of Mr. Oliver.

I must say that this option was favored by the manufacturers primarily.

Option 2, which had unanimous agreement from the producer organizations present, was a little different formula. It was calculated in the following manner: 50 percent weight given to the difference between the immediately preceding year's support level and the average market price of 3 of the 5 preceding years, with the high and low years excluded, and then 50 percent weight given to an index of prices paid by tobacco farmers.

That price index could include such items as seed, fertilizer, and so forth. We did not include in that index any return for labor, land, or lease costs. We do feel that assessment costs are legitimate costs and should be included.

Under option 2, the Secretary would be given authority to adjust the price support 65 to 100 percent of the increase or decrease of that formula, and there would be no price support floor under option 2.

Our support of option 2 is based upon the protection, small as it is, for our producers against rising production costs, and also an escalation clause that would also encourage purchasers to buy from the warehouse floor rather than allowing it to go to Stabilization stocks and purchase it later at the same price, plus processing and carrying charges.

In S. 1418, under price support adjustments, section 3, neither of the options is included, and a completely different formula, of which very little discussion was debated and no agreement was reached, is in place.

We are also concerned with the method for the determination of marketing quotas for Flue-cured and burley tobacco in S. 1418. With no limitations on imports of Flue-cured or burley tobacco, the manufacturers, under the provisions of S. 1418, could easily factor in amounts they intend to import, thereby further reducing our quotas.

The American producers would be faced with further reductions in quota, thereby forcing many small producers out of business. As best as I can determine, we would be faced with a 15-percent reduction in quota in 1986. This situation would be further compounded, beginning with the 1987 crop when you have the elimination of lease and transfer.

If Stabilization stocks are greatly increased this year, as it appears, if we have no administrative procedures for dealing with the 1985 crop, then we would possibly face an even grater cut in 1986 in quota, maybe as high as 22 percent. You can readily see that many producers would be forced out of production of both Flue-cured and burley tobacco.

Under purchase requirements penalty of S. 1418, there is no penalty for purchasers that do not purchase 90 percent of the amount it submitted that it would purchase. Again, we had agreed in our negotiations that any one company that did not purchase 90 percent would face a double assessment, and I think that this is very essential that this provision be placed back in the legislation.

The section dealing with review of the tobacco grading system and disaster crop designation also causes some concern. After discussions with Stabilization Corporation's personnel, it appears that adequate grades are already in the system that can adequately handle this.

I question the necessity of a technical committee under the provisions of this bill. We had agreed during negotiations that a technical committee would be appointed to work out the details of the implementation of the disaster crop designation prior to the introduction of the legislation.

S. 1418 requires the Secretary of Agriculture to appoint an advisory committee, composed of producers, purchasers, persons interested in providing tobacco grading services, and such others as the Secretary deems appropriate.

The advisory committee shall meet regularly to evaluate and make recommendations to the Secretary with respect to, among other things, the operation of tobacco grading criteria for designating disaster crops and establishment of disaster grades.

I am very concerned that this committee, and the duties given it, would tend to be an advisory committee to the Secretary to make recommendations not only in the grading service and disaster crops, but also with the words "among other things" included, it appears to me that this group would have very broad powers.

At our last meeting of the interested parties on July 10, 1985, a so-called technical committee was appointed. If this is the committee to be appointed by the Secretary under S. 1418, I am quite concerned that there were no representatives from domestic manufacturers nor the Grange on that committee. I feel that a committee of this importance should have representatives from both. I also feel that the words "among other things" should be stricken from the bill as it relates to duties of the committee.

It is my understanding that the section of the preliminary draft of S. 1418 dealing with tax treatment of contributions to the no-net-cost tobacco fund or account was removed and placed under an amendment. I hope that this amendment will be strongly supported by all parties involved with attempted passage of S. 1418 in order that our producers may be relieved of the tax burden of assessments as soon as possible.

I am very much concerned over the possibility of an amendment to S. 1418 that would allow use of Flue-cured assessments paid by Flue-cured producers, issued stock certificates by Flue-Cured Stabilization Corporation and subject to tax by both State and Federal agencies. A section dealing with this very subject was removed from the bill just prior to its introduction. I am very concerned that this may come back in the form of an amendment.

If it does, in my judgment it will not only be illegal, unethical, immoral, and downright theft of these funds from the Flue-cured producers who paid these assessments for the operation of their program. I wonder what the reaction would be from the burley producers if this situation was reversed. We strongly oppose any attempt of such a transfer of funds.

In conclusion, Mr. Chairman, the basic concepts of S. 1418 closely parallels policy of both the North Carolina State Grange and the National Grange. That policy is basically to: one, save the program;

two, address the excess stocks of the Stabilization Corporation; three, limit assessments paid by tobacco producers to not more than 5 cents a pound; and four, if these three conditions are met, then we would favor a reduction in the price support to approximately $1.50 per pound for Flue-cured and $1.55 for burley.

The Grange does not oppose the basic principles of S. 1418; however, we could look upon it more favorably if the recommended changes I have stated today are incorporated into the bill.

We also realize many attempts will be made to further weaken this bill. On behalf of thousands of Flue-cured and burley tobacco producers who depend upon this program for their livelihood, we would hope that there interests will prevail.

Only the producers will suffer if we save the program, but lose the producer. Their future is in the hands of this committee. We will do our part in working with you to insure they receive a fair and equitable program in the future.

Again, Mr. Chairman, we thank you for this opportunity to appear before you and express our concerns.

The CHAIRMAN. Thank you, Jim.

I was sitting here thinking, I know that all States are blessed, as North Carolina is. We have many agricultural statesmen in North Carolina, and I was thinking of one whom we lost a few months ago, John Sledge. He was president of the North Carolina Farm Bureau.

John spent countless hours working with us on this problem and others. He has been succeeded by another fine man, Bob Jenkins, who is now president.

John Parker is here today. John is commodities director of the North Carolina Farm Bureau; he is the counterpart of Joe Stancil who will come after John.

John, we are glad to have you here, and we appreciate the work done by the Farm Bureau through the years and now. You may proceed.

We are under some time restraints, and if you hear a little clang, don't feel like you have to stop in midsentence but sort of proceed—time is running on. You may proceed.

STATEMENT OF JOHN PARKER, COMMODITIES DIRECTOR, NORTH CAROLINA FARM BUREAU FEDERATION, RALEIGH, NC

Mr. PARKER. Thank you, Mr. Chairman and members of the committee. I will summarize, and ask that our printed statement be made a part of the record.[1]

On behalf of the membership of our organization, I appreciate the opportunity of appearing before you today to share our views and concerns with respect to S. 1418, the Tobacco Program Improvement Act of 1985.

Over the course of this year, we have attempted, in good faith, to meet with all who have an interest in tobacco, in working toward the development of a viable tobacco legislative reform program for the future.

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[1] See p. 77 for the prepared statement of Mr. Parker.

First, let me state that the North Carolina Farm Bureau recognizes the need for a workable tobacco program, and we do support such.

The development of activities during this year have been measured against five points that were developed by our leadership early in 1985 and were conveyed to you, Mr. Chairman, in a letter dated February 11 of this year.

We recognized that we had problems with the tobacco program and that some change was necessary, but that certain conditions and certain tests had to be measured in developing legislative reforms.

The five areas that were addressed in that letter were: One, there needed to be a meaningful reduction in imports of foreign-grown burley and Flue-cured tobacco; second, there had to be relief from the unbearable assessments and the inventories of tobacco under loan; and three, there needed to be some consideration of a maximum assessment to be imposed on growers; fourth, that there would need to be a reinstatement of a reasonable and responsible price support adjustor; and five, that contingent upon the achievement of those four points, the North Carolina Farm Bureau, in fact, would work for legislation to adjust the price support level no lower than $1.50 per pound, with a maximum of 5 cents per pound assessment imposed on the growers—in other words, an effective price support level of $1.45.

It is within that framework, then, that we have attempted to cooperate with others in the development of a program and, at the same time, apply those measures against the language contained in S. 1418.

The bill does not directly address the import problem. We recognize the reluctance of this administration and Members of the Congress to, legislatively, deal with imports. However, we are reminded that even USDA, in the International Trade Commission hearing this year, provided data and submitted statements, in effect, that the imports of those tobaccos were, in fact, damaging the program.

The second point addresses the issue of relief from responsibility of loan stock inventories. S. 1418 does, in fact, address that issue. We do, however, have some concern with the purchase of the inventories in that there exists the possibility that a substantial volume of the 1976 through 1984 inventories of Flue-cured could be, in fact, left in the inventory, and failure to achieve a complete buyout would leave the Flue-Cured Stabilization Cooperative in the position of having two inventory pools.

Point three relates to a ceiling or maximum on the assessments imposed on growers, and is not directly addressed in the legislation, but in an indirect manner. I think there is the provision dealing with the method of establishing the quota for future years that, in effect, if properly administered and carried out to the ultimate, could act as a ceiling on assessments to be imposed on growers.

Point four deals with the price support adjustor for the future. Now, this is where we begin to have some difficulties with the language contained in S. 1418. We feel, and have expressed in previous meetings, that there should be equal consideration of the Cost of Production Index, as is given to the market side of the formula.

Within the Cost of Production Index, I concur with the statement Mr. Oliver made that the assessment is a cost item that should be included in the cost of production.

There are only two cost expenses that are related to the production and marketing of tobacco that are mandated. One is the assessment, and the other is the user fee imposed for inspection and grading services.

We would, and do suggest in our statement, Mr. Chairman, that the language dealing with the 95 percent of the market average of 3 out of 5 years be removed, and we suggest also that substitute language for section 3(6)(A) (i) and (ii) be amended to provide for 50 percent of the amount of the average received by farmers, and 50 percent of the change in the index, become the formula for future price support adjustment.

We concur with the sharing of the assessments to the no-net-cost account funds, provided in section 8 of the bill. The purchase requirement penalty, should be imposed on each individual company, that performance against their purchase intentions be up to each company rather than on an aggregate situation.

The section dealing with the review of tobacco grading systems, and the disaster crop, we feel could be one of the most critical points within this bill. We recognize the need to deal with a sunbaked, drought-affected crop at the earliest possible time. However, we are concerned that we do not develop a mechanism that can be structured in such a manner as to be effectively used in reducing the overall price support level.

I would suggest that this is an area that needs very careful and very thorough examination.

We support section 12 of the bill which would permit the interest accrued on reserves held in the tobacco inspection fund to go to that fund rather than to the General Treasury.

Finally, Mr. Chairman, we request the assistance of the members of this committee in the obtaining of the favorable consideration of the amendments to the Internal Revenue Code, as was originally provided in section 10(a) of S. 1418.

Let me say again that we thank you for the opportunity of appearing before you today, and to state again that the North Carolina Farm Bureau supports a viable tobacco program, a program that is fair to the purchasers of tobacco, and one that provides an opportunity for tobacco producers to make a living.

Thank you, sir.

The **Chairman**. Thank you very much.

Mr. Stancil.

STATEMENT OF JOE STANCIL, DIRECTOR, COMMODITY DEPARTMENT, SOUTH CAROLINA FARM BUREAU, COLUMBIA, SC

Mr. **Stancil**. Thank you, Mr. Chairman, and I, too, will try to cut some of this short.[1]

One statement first—I would like to express the regrets of the president of the South Carolina Farm Bureau, Harry Bell, who, unfortunately, had a long-standing personal commitment and could not be here today. Also, I appreciate the plug our good senior Senator gave our statement forthcoming.

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[1] See p. 81 for the prepared statement of Mr. Stancil.

Mr. Chairman, I am Joe Stancil, director of the Commodity Department of South Carolina Farm Bureau. I would first like to say that our tobacco committee and leadership are in full agreement that changes must be made in the tobacco program if it is to survive and serve in the best interest of tobacco growers.

As you are aware, we have been deeply involved in the negotiating process that has led to the introduction of this legislation, and we are in full support of the concept of S. 1418. There are quite a few points here we are very much favorable to, and some of these have been outlined already.

However, there are several areas of concern which, by the way, have been raised during the negotiating session, we feel need to be presented to the committee at today's hearing.

Mr. Chairman, I offer the following points for you and your committee's deliberation: One, in the area of price supports. It is our understanding that the agreement reached during the previous sessions called for price supports to be calculated by a formula, giving 50 percent weight to 100 percent of the market average for the 5 previous years, excluding the high and low years, and 50 percent weight given to the producer prices paid index.

Also, in this section, we have serious concerns over what input items will eventually be included and excluded in the calculation of the prices paid index.

The second item relates to the purchase requirements and the penalties thereof. Based on our understanding of the agreements, we believe that the language in this section needs to be changed to reflect such agreements, outlining that any individual manufacturer who fails to purchase at least 90 percent of their purchase intentions will be subject to a penalty equal to twice the normal assessment.

The third item, and that is the purchase of inventory stock. Growers in South Carolina believe that the language used in this section is not nearly as binding as it needs to be in order to assure that all domestic manufacturers participate in the purchase of inventory stocks.

It is our understanding that it is legally impossible to out and out mandate that all domestic manufacturers participate; however, we do request that the committee explore the possibility of the inclusion of language that would create a situation whereby it would be economically advantageous for those manufacturers to participate.

The fourth item is the review of tobacco grading and disaster crop designation. This entire section needs to be carefully evaluated so as to avoid an overkill situation which could be extensively used to lower the overall support price. Blanket declaration of a disaster crop could, in fact, cause income reductions to growers who have invested in irrigation equipment, et cetera.

We believe it is the intent of this section to go only as far as authorizing the development of individual grades which characterize low-quality tobacco, and that these grades be assigned on a sheet-by-sheet basis, thereby removing any reference to a disaster crop.

Mr. Chairman, there is one additional topic which S. 1418 fails to directly address. That is the problem growers are facing relative to the importation of cheap foreign-grown tobaccos. This subject has been a thorn in the side of growers for many years.

As you are aware, we tried for relief through a section 22 request in 1981, and again in January 1985, but we were denied relief both times. We feel that any tobacco reform legislation needs to address this very important subject.

It is difficult for growers to accept a lower price for their commodity and a strong probability of reduced quota when there is no assurance that imports will diminish.

We realize that imports were a taboo subject during the negotiating session, however it is one that needs addressing, either through direct language or through language that makes it financially beneficial to companies to reduce substantially their importation of foreign-grown leaf.

Mr. Chairman, in conclusion, let me state that the South Carolina Farm Bureau appreciates the efforts that have been taken by all concerned to develop worthwhile reforms in tobacco legislation. I would also like to reiterate our support for the concept and the majority of components embodied in S. 1418. We would like to request of you and the entire committee that careful consideration be given to the proposals I have previously outlined.

Mr. Chairman, again, thank you for the opportunity to present the viewpoints of the South Carolina Farm Bureau.

The CHAIRMAN. Mr. Stancil, thank you very much.

I have a couple of questions, I'll be brief about it.

Fred, being the head of the Stabilization, I've seen all sorts of printed estimates about the cost of this bill, if enacted, signed into law. They range from $500 million to $1.2 billion, that sort of thing. I never see an estimate of what it would cost if something like this is not enacted, if the entire tobacco program were to go bankrupt, or if farmers are put in the position of voting the program out in the next referendum.

What would the cost then be, compared to whatever has been estimated thus far in the cost of this bill?

Mr. BOND. Well, from the Flue-cured standpoint, the financial liability at the moment is $1.9 billion, and you would add to that, of course, if the burley went by the wayside, whatever that liability is—and I don't have those numbers.

Mr. GALLOWAY. It's $1.43.

Mr. BOND. It would be over $3 billion.

The CHAIRMAN. I just thought those figures ought to be included in the mix, because the media says: "Oh, this is a giveaway program," and so forth. It may fall in the category of Hobbesian's choice, but Hobbes chooses the lesser with this legislation, doesn't he?

Mr. BOND. Yes, sir.

The CHAIRMAN. Billy Carter, if this legislation is not enacted, what is your prediction on the ground in North Carolina for future quota cuts, assessments, the amount going under loan, quota rent, and that sort of thing?

Mr. CARTER. Not only no legislation, but also no price reduction for 1985?

The **Chairman**. That is correct.

Mr. **Carter**. I would certainly think that 40 percent going to Stabilization would not be a bad figure to deal with; that being the case, you would be looking at extreme quota cuts next year which, consequently, would, in turn, squeeze those growers who managed to stay in business in obtaining quota for another year, and simply from the fact that there is less of it.

The **Chairman**. I suppose it is generally agreed that if we don't do something about overloading the circuit in Stabilization, the program is not going to survive, so we are confronting a problem that must be remedied, otherwise there will be no program.

Thank you very much, gentlemen. I appreciate your coming. I know you came some distance, as did other witnesses.

I'll tell you what I'm going to do, and I do this very often. I heard my distinguished colleague from Kentucky mention that he was the least senior man on the committee, so you are going to preside over the committee and present the Kentucky delegation.

Senator **McConnell**. Thank you.

The **Chairman**. Now, you come here.

Senator **McConnell** [presiding]. Thank you very much, Mr. Chairman.

I would like to welcome to our committee the next panel from Kentucky, Bob Froman who is the president of the U.S. Burley Producers Association, Frankfort; Joe McDaniel, president of Burley Tobacco Growers Cooperative Association from Lexington; Ray Mackey, Elizabethtown, who is president of our Farm Bureau in Kentucky; Dan Reeves on behalf of Will Ed Clark, the general manager of the Western Dark-Fired Tobacco Growers Association, from Murray.

Ray, why don't you come on around here, and you all can proceed in descending order.

As you know, Senator Ford and I, and Senator Helms, have been a part of and listened to many discussions over the last few months, with both North Carolina and Kentucky folks participating.

We are particularly pleased to have here today, as a panel, our Kentucky leaders to talk about the bill that the three of us have introduced. We will lead off with Mr. Froman.

STATEMENT OF BOB FROMAN, PRESIDENT, U.S. BURLEY PRODUCERS ASSOCIATION, FRANKFORT, KY

Mr. **Froman**. Thank you, sir.

Mr. Chairman, committee members, my name is Bob Froman; I am president of the U.S. Burley Producers Association, and a farmer from Gallet County, KY.

Kentucky is predominately a rural State. It ranks fifth in the Nation in the number of farms. It has a total population of approximately 3.3 million people. Roughly 50 percent of the State's population is in Louisville, Lexington, and northern Kentucky metropolitan areas, hence, about 50 percent of the 3.3 million people living in approximately 6 counties out of the 120 counties in Kentucky. Therefore, Kentucky is a small, rural, family-farm State.

The topography of Kentucky is rough to rolling, with only a few counties in the western part of the State that has any acreage that is conductive to intensive cultural practices. Kentucky has a little over 14 million acres in farms, with a cropland harvested acreage of 4,843,000 acres. The average farm size in Kentucky is only 140 acres. Kentucky produces only 1 percent of the Nation's corn and 2 percent of the soybeans. These facts are what make a crop, such as tobacco, so important. It has traditionally been a high-value, low-acreage crop that allows family farms to survive.

It is very important that you get a general overview of Kentucky to understand why the millions of dollars per county, generated by tobacco is the difference between surviving economically and bankruptcy for farmers, small businesses, banks, and government agencies.

Many counties in Kentucky have a population of 10,000 to 20,000 people; hence, you can see it takes only a small downward shift in the dollar flow in these counties to severely damage their economy. The nonfarm business community in many counties in Kentucky look to the farm dollar expenditure to survive. They do not have a large nonfarm population to draw business. In addition, most counties in Kentucky do not have an industrial complex to fall back on when the agriculture economy falters.

The Kentucky Bankers Association surveyed 140 banks in Kentucky, and 107 banks reported agriculture as the major economic force in their community; 11 percent reported small industry, and 9.5 percent reported coal, and 2 percent large industries as the major economic force in their community. Where tobacco was the major crop in their banking community, 80 percent gave agriculture the top economic rating, and those banking communities where no tobacco was grown, 50 percent reported agriculture as the No. 1 economic force.

Tobacco is as ingrained in the heritage and economy of Kentucky as dairy is to Wisconsin, grain to the mid-West, citrus and vegetables to California, Florida, and Texas, timber to the Northwest and cotton to the South.

The elimination of the tobacco program in Kentucky would cause hundreds of small businesses to close, some rural banks will go under, school systems, city, county, and State governments will have revenue shortfalls or face bankruptcy. The small family farmer in Kentucky will be no more.

It is our hope that the honorable conservative, liberal, and moderate Members of the U.S. Congress and Senate will come to the realization that the agriculture economy of this Nation is not healthy, and to take one of the few profitable commodities and turn it into an unprofitable one is not in the best interest of this Nation, when there is little, if anything, to gain versus the damage it will do.

Some people in America are going to smoke, with or without the tobacco program. The American farmer cannot compete on a dollar basis with Third World countries. Therefore, the elimination of the tobacco program will remove the profit from the product and ultimately place it in the hands of foreign producers. These producers can apply any chemical they wish on the tobacco, whereas the U.S. farmer is regulated by the Federal Insecticide, Fungicide, and Rodenticide Act of 1972, plus additional constraints placed on them by the U.S. Department of Agriculture. Therefore, knowing that Americans are going to smoke, isn't it more reasonable to keep it growing where it can be regulated and kept as clean as possible?

Kentucky's agribusiness is almost totally dependent on tobacco. If we lose this segment of agriculture, a great majority of farms, small businesses will be forced out with no recourse. There is no substitute for high-value, low-acreage crops that can be produced on small family-owned farms that will enable these thousands of families to have a profitable small farming operation. In addition, many of the small businesses, auto dealerships, fertilizer and chemical dealers, as well as rural banks, will be jeopardized due to the lack of cash-flow from tobacco.

The tobacco producers are not asking for a bailout with a huge Government subsidy, but rather continuation of the existing program, with certain modifications that will assure working continuity among tobacco producers, tobacco companies, and Government regulatory agencies. Tobacco producers need to maintain the traditional allotment and price support system.

We, as tobacco producers, ask for your legislative support and influence to help us maintain our livelihood. Make no mistake, the tobacco program is the rural economics of Kentucky. Without the program, foreclosure and welfare will be the rewards of a once proud heritage. Please help us to help ourselves by giving your support to continuing the tobacco program.

The U.S. Burley Tobacco Producers Association stands ready to support their friends, wherever they may be.

Thank you.

Senator McCONNELL. Thank you, Bob.

Joe McDaniel.

STATEMENT OF JOE McDANIEL, PRESIDENT, BURLEY TOBACCCO GROWERS COOPERATIVE ASSOCIATION, LEXINGTON, KY

Mr. McDANIEL. My name is Joe McDaniel. I am a burley tobacco farmer, and I have been president of the Kentucky Burley Tobacco Growers Cooperative Association since 1978, and have been associated with the tobacco program for over 30 years.

I thank the committee for the opportunity to appear here today in support of Senate bill No. 1418, the Tobacco Improvement Act of 1985.

I am also representing the Tennessee Burley Tobacco Growers Stabilization Cooperative, headed by Bill Myer.

First, I would like to express my appreciation to Senators Helms, Ford, McConnell, and their staffs, as well as to the staff of this committee for the leadership and untiring efforts put forth to bring about the industry consensus which has resulted in this bill.

Senate bill 1418 is not a perfect instrument. I would be less than candid if I indicated that our association and its farmer members are entirely pleased with all of its provisions. The bill does, however, contain the element of compromise so necessary to the solution of major public problems. It requires everyone concerned to give up something.

Those involved in the problems of the tobacco program are the farmer, the buying interest and the U.S. Government. Each must sacrifice to preserve this program. Under Senate bill 1418, the farmer sacrifices by seeing his average support price rolled back almost 20 percent. The manufacturers assist by participating in the future costs of the program. The Government must solidify the program by absorbing some of the losses caused by the disasterous 1983 burley tobacco crop.

Under Senate bill 1418, with mutual concessions, we can solve this problem and preserve the marketing stability and prosperity of our farmers which the program has brought since its enactment into law in 1938.

Since we first began to deal with the provisions of this legislation over a year ago, it has been the primary goal of our association to save the tobacco program. The history of Kentucky is chock full of examples of disharmony, violence, and even killing brought on by tensions arising from many individual farmer sellers, with little market leverage, dealing with a few buying interests. Our Kentucky Senators know well of the Black Patch wars and the Night Riders which resulted in our State from the tobacco marketing inequity.

For over 45 years, our association has provided price protection to the burley farmers. This protection has been available throughout that period, at minimal cost to the Government. Until the disaster crop of 1983, our association had borrowed from the Commodity Credit Corporation $1,178 million for loans to farmers on their tobacco crops. Over all those years, we repaid the loans on a timely basis in full, with interest of $148,477,000, and were able to return over $31 million in dividends to our members. We want to continue that service to the farmers.

As to the specifics of this bill, I would like to make several comments. Senate bill 1418 provides for a rollback in tobacco support prices for burley, from $1.78 per pound to $1.45 per pound. While our farmers do not relish this reduction, they realize that for the program to survive we must sell our product at a price which will cause it to move in international commerce.

As to the manufacturers' participation in the future costs of this program, we feel strongly that since their companies benefit from the stability that the program provides, it is no more than just that some expenses be borne by them.

The new quota-setting mechanisms in this bill are worrisome to some of our farmers. But to save the program, we must risk the good faith pledge of the buying interests that their participation in setting quotas for the future, based on projections of use, will stabilize the pool, will create a healthier tobacco industry, and will not be used to benefit their private corporate interests. Without this quota concession, the manufacturers would not participate in this arrangement.

Concerning the buyout of tobacco from the pools, Senate bill 1418 will save the U.S. Government money in the long run. Since 1982, the implement of the No Net Cost Act, our farmers have seen their checkoff or assessment to cover the costs of the program, go from 1 cent a pound to 5 cents, and then to 9 cents, and for this year 30 cents per pound. Without legislation, I predict the farmer assessment for 1986 will be as high as 55 cents per pound. If this was the case, our farmers would probably vote the program out of existence at the statutory referendum in February 1986.

By that time, the burley pool in Kentucky alone could have as much as $1,470 million in loans outstanding for tobacco, which would become the obligation of the U.S. Commodity Credit Corporation. It is logical to assume that without legislation, at $1.79 average loan rate, the association could take under a loan, in this year alone, 50 percent of the crop. This would mean the Kentucky and Tennessee associations would take over 250 million additional pounds, valued at $450 million in one crop alone. Finding a market for this tobacco would be difficult in an orderly situation, but in a distress sale, conducted by the Government on defaulted loan tobacco, the losses would be enormous.

Thus, Senate bill 1418, while costly to the Government, mainly because of our drought ridden 1983 crop, will, in the long run, minimize the Government's financial losses and place the tobacco program on a sound footing to the no-net-cost concept work.

Our contact with growers reveals a number of concerns. We have referred most of them to the staff. One concern I am committed to personally bring to the attention of this committee is that Senate bill 1418 does not maintain the carry forward provision of the current law when the individual quota is underproduced. Many Kentucky farmers feel this could ruin a small farmer if his crop is wiped out in a given year and he cannot carry forward. We hope the committee will look strongly at this and consider a committee amendment to correct it.

A further matter demands mentioning regarding the Burley Tobacco Program. According to a number of studies, 7.4 percent of Kentucky employment is directly or indirectly attributable to tobacco. Its orderly growing and marketing is extremely important to out State's economy and the people's well-being. Our people's indirect and direct contributions to the Federal and State taxes are dependent upon this program.

Also, the loan collateral agricultural banks all over Kentucky have taken on farm property will be seriously reduced if the quota system does not survive. Some estimate that the value of Kentucky farmland with quotas would drop as much as 40 percent without a quota system. This could jeopardize banks and depositors all over the Tobacco Belt.

Moreover, Congress should not lose sight of the fact that tobacco is more heavily taxed than any consumer product, starting with more than $8 billion in excises pumped annually into Federal, State, and local government treasuries. In a deregulated environment, no one knows what the consequences would be.

In conclusion, while Senate bill 1418 is not perfect and will require farmer sacrifices, as well as considerable trust on our part in the good faith of the buying interests, it is infinitely better than the loss of our tobacco program.

If, under Senate bill 1418, the tobacco program does not work, in the future we can always come back and amend. But if we lose the program, that is final; a corpse cannot be healed.

Before I finish, Mr. Chairman, I would like to invite each of you to go to my hometown, Cynthiana, Harrison County, KY, and walk down the streets and contact farmers. They are deeply concerned, because this means bread and meat to a lot of them. Go into the banks that have loans predicated on the tobacco input, go into the merchants—they are greatly concerned.

I had a Chevrolet dealer the other day say, "I'll give all the committee a good ham if they will preserve this tobacco program, so I think the offer——

Senator FORD. Ain't nothing better than that.

Mr. McDANIEL. Thank you.

Senator McCONNELL. Thank you, Mr. McDaniel.

The president of our Kentucky Farm Bureau, Ray Mackey.

STATEMENT OF RAY MACKEY, PRESIDENT, KENTUCKY FARM BUREAU FEDERATION, LOUISVILLE, KY

Mr. MACKEY. Mr. Chairman, members of the committee, I appreciate the opportunity to express my views on S. 1418.

I am Ray Mackey, a Hardin County, KY, tobacco producer, and president of the Kentucky Farm Bureau. It is on behalf of my State's burley producers, the great majority of whom are among the 231,000 family members of the Kentucky Farm Bureau, that I come before you today to urge a favorable vote on the Tobacco Program Improvement Act of 1985.

This legislation, if enacted, will, in my opinion, give the tobacco production industry a fighting chance of regaining its economic viability. It addresses the myriad problems currently facing us, including tobacco prices, program costs and program acceptability, not only among farmers but among the tax-paying public as well.

Please focus, if you will, on the economic implications to my State, should this legislation fail and the tobacco program collapse.

How many of the 150,000 allotment holders could continue producing burley without the program? How many small agriculture communities would see their economic underpinnings unravel if tobacco production and warehousing patterns shifted abruptly? How many local governments and school systems would be backed against the wall if the local tax revenues shrunk in response to tobacco's geographic upheaval?

I stated recently that the clock is ticking for burley producers. That statement was part of a declaration, on my part, that the time for division and fault-finding among tobacco industry segments was past, and the time for action is here and now.

This legislation embodies bitter medicine for growers and manufacturers alike, but with the after-taste, there is a real prospect for a cure. The origins of this legislative proposal are well known, but so unique as to be worthy of a brief review.

It is the product of historic negotiations between farmers and manufacturers, presided over by elected political leaders.

Just a few months ago, few knowledgeable observers would have dared predict that these two parties would even sit at the same negotiating table, let alone reach agreement on issues as sensitive as tobacco prices, no net cost liability, disposition of surplus stock and quota-setting arrangements. Considering the acrimonious level of debate between them, even I would not have thought it possible to make the progress we have seen.

It is incumbent on all of us, with a stake in our tobacco industry, not to let this negotiated pact come apart at the seams. Such an outcome would surely spell disaster to the farmers that I represent.

If the program is left in its current form, our problems can only grow worse. The companies have already demonstrated their increasing reluctance to buy our tobacco under the current price support structure; and given the higher production totals of burley in many foreign countries, I see no way to force the companies into buying patterns which they feel are unacceptable.

The massive levels of surplus stocks of both major tobacco types makes the picture even darker. In the absence of a major legislative change in the program, it takes neither a crystal ball or tea leaves to predict the outcome: Higher levels of imported tobacco, a smaller production total, and smaller allotments in this country, and even greater buildups of pool stocks, and a no-net-cost assessment of a half dollar or more a pound.

Within a short time, growers themselves would surely vote to eliminate the program and dump a mammoth stockpile of tobacco into the laps of taxpayers for disposition.

With the program's demise, tobacco production by independent farmers, as we have known in Kentucky for two centuries, would be a thing of the past. Production would be under the control of the companies, with dictated prices sure to prove uneconomical to all but the largest production units. Many small farmers, unable to pay their bills without tobacco, would be certain to abandon their farms and become a part of the welfare system. That scenario doesn't have to happen, however.

There are several specific elements in the legislation before you that argue for your support. Under this plan, tobacco growers are pledging their willingness to bring their prices more in line with their competition. They are not asking for a prop to guarantee a level of income that has proven unrealistic by global standards. We are willing to compete with tobacco growers anywhere, and we are determined to regain lost markets.

This plan is a better deal for the Government than any other approach that has been suggested. There can be little doubt that the costs relating to the 1983 drought-damaged crop of burley will be significantly less than the cost of administering and disposing of the entire holdings of both major tobacco pools, and that prospect is a very real one for the Department of Agriculture if the program self-destructs.

In addition, if the revised price structure does help reclaim some lost markets and boosts U.S. leaf production, that could provide an additional shot in the arm for governments in the form of increased tax revenues.

The plan will go far toward preventing severe fluctuations of tobacco supplies in the future. It requires the companies to provide confidential needs estimates to USDA prior to the annual quota-setting process, and then levies a penalty if those purchase plans do not materialize.

The shared responsibility for pool costs is another major disincentive for stocks to climb. In the future, manufacturers will have a powerful financial reason to keep stock levels down. If they don't, they will have to pay half the freight.

In closing, I feel compelled to address the relative merits of some rival legislation to this bill, being touted by some as a more desirable approach to solving our problems.

That measure which would earmark 2 cents of the Federal cigarette tax to cover program costs is being offered to growers as a painless fix for the ills of our industry.

As much as anyone, I wish it could be that easy, but of course it's not. Those who are promoting that approach recognize, as we all do, the difficulty of gaining congressional approval of an increased tobacco subsidy.

Given the open hostility among some of your colleagues toward our crop, the growing Federal deficit, and the move toward cutbacks in farm price support programs, I question whether there is any realistic hope for passage of that tax earmarking measure.

The Tobacco Program Improvement Act, in my considered opinion, offers at least two advantages over the tax alternative: It is much more likely to win approval in Congress, and it is a more comprehensive approach to the many problems our industry faces.

I encourage you to resist any temptations for delay, and pass this tough, but realistic compromise legislation. With this bill, we have a better-than-even chance of retaining tobacco's economic contributions, and once and for all eliminating destructive fluctuations in supplies that have brought our program to the brink of collapse.

Thank you again for allowing me to testify before this committee.

Senator McConnell. Thank you, Mr. Mackey.

Ben Reeves, on behalf of the Western Dark-Fired Tobacco Growers Association, Murray, KY. Ben.

STATEMENT OF BENJAMIN F. REEVES, VICE PRESIDENT, BURLEY AND DARK LEAF TOBACCO EXPORT ASSOCIATION, ON BEHALF OF WILL ED. CLARK, GENERAL MANAGER, WESTERN DARK-FIRED TOBACCO GROWERS ASSOCIATION, MURRAY, KY

Mr. Reeves. Thank you, Senator.

I am Ben Reeves of the Burley and Dark Leaf Tobacco Export Association, based here in Washington. My role this morning is simply to represent Will Ed. Clark, the general manager of the Western Dark-Fired Tobacco Growers Association in Murray, KY.

Mr. Clark advises me that on June 28, the directors of his organization unanimously endorsed four points that they would like to see included in any legislation, approved by the Congress, as they relate only to types 23 and 35.

I have been in contact with William Porter of Springfield, TN, who is the general manager of the Eastern Dark Fired Tobacco Growers Association, another constituent organization of the Export Association, and he tells me that the Eastern Dark Fired Association is in agreement with this statement of proposals.

So in the interest of speeding consideration, I simply submit for the record the changes requested by the Western Dark-Fired Tobacco Growers Association, and I thank you, sir.

Senator FORD. Mr. Chairman, I ask that the statement from G.B. Midden, Sr., president, Council for Burley Tobacco, be included in the record.[1]

Senator MCCONNELL. Without objection.

Thank you, Mr. Reeves.

One of our problems seems to be in the field of the tobacco program that so few people outside the tobacco States understand it. Frequently, folks come up to me and they say, "We need to get rid of that tobacco program because it will take care of smoking." The tobacco program has nothing to do with whether not there is going to be tobacco grown and tobacco smoked.

The tobacco program is all about the question of who produces tobacco, and I think our Kentucky people have made the point very well this morning.

In our State, where there is not, at least east of Interstate 65, a whole lot of flat land. When you talk about alternatives to the production of tobacco, there aren't any good alternatives. As every one of our people indicated, tobacco can be produced on very small plots very profitably.

The University of Kentucky College of Agriculture has done extensive work on alternate crops, and hasn't been able to come up with anything that we could produce at as much of a profit in those hills and mountains of Kentucky.

What we are talking about here is a way of life for a substantial portion of our people in Kentucky.

Ray, I wanted to ask you, someone earlier talked about imported tobacco, and I want to ask you if you feel this legislation addresses the import issue.

Mr. MACKEY. Well, it does in a way. Certainly, we would hope that imports would decline. It puts the companies alongside the producers in sharing the no-net-cost of pool stock buildup. So if they contine to import tobacco, pool stocks will perhaps increase again.

Now, there is an incentive here in the bill not to import tobacco. We are still concerned about imports, and we would like that addressed, but it is difficult to do, in a legislative way, and I guess we are relying on the good faith of the companies that have indicated that this program will make our tobacco competitive in the world market, and that imports will decline.

Senator MCCONNELL. Thank you. I appreciate you emphasizing that point.

Bob Froman, at what point do you think, assuming S. 1418 were not enacted, at what point do our burley growers simply walk away from the program? Do they do it next year?

Mr. FROMAN. I don't think they do it next year, but I believe the year coming they will walk away from it. There wouldn't be any incentive left.

You know, without it, just like everybody said, we are done! And you would hate to see everybody go on the welfare rolls, their farms sold, and what-have-you, but without it, that's what it is going to be. But that's our feeling.

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[1] See p. 83 for the prepared statement of Mr. Reeves, and p. 94 for the statement from Mr. Midden with attachment.

Senator McConnell. As we were just discussing earlier, in the hills and mountains, there is no good alternative.

Mr. Froman. No, sir.

Senator McConnell. Maybe in the west, where the land is flat, there might be something else you could do.

Just for the record, assuming that the program is voted out, what happens to the 1.4 billion dollars' worth of tobacco in burley loan inventory? What does the Government do? What happens to that? How does it impact the taxpayer? Joe.

Mr. McDaniel. As we anticipate the no cost fee will go up in 1986 to above 50 cents a pound, that will—I'm afraid the farmers would vote the program out and, under the guaranteed price, when the farmers don't participate in the program, that the cost and all the tobacco falls back to the Commodity Credit Corporation, and they will have a fire sale, I presume, and tobacco will go down. You can't give it away if it's disposed of in a short period of time.

Ray Mackey touched on the import problem. I would like to expand on one idea, and that is when the companies assume the responsibility of buying out the 1982 and the 1984 crop of some 354 million pounds, I don't believe they are going to import more tobacco on top of that.

Furthermore, I think that since we have lowered the price to $1.45, that it will be more conducive to them to buy domestic tobacco since, really, when you get right down to the political end of it, I think the companies need the farmers' support in tobacco legislation as well as we need them, so it's kind of a bipartisan setup.

Senator McConnell. One final question, and then I will defer to my colleague from Kentucky, Senator Ford.

I also wanted to get Ray Mackey's assessment of what is likely to happen in a referendum next year if S. 1418 is not approved.

Mr. Mackey. Well, that is difficult to determine. I think it will depend on what happens in this year's marketing season, how much tobacco goes under loan, what the assessment is going to be.

I think our position would be to try to maintain a program as long as possible, that we would encourage the growers to continue to support the program. Whether or not they could afford the kind of assessments is still a question.

There's so many bad things about no program that I think we must maintain the program as long as there is a chance here in the Congress to change it so that it can be a viable program.

We don't want this legislation to fail, but if it were to fail I would hope we would try again before we vote the program out.

Senator McConnell. What percent of the vote is required to vote the program out?

Mr. Mackey. It only takes one over one-third, I guess; it takes a two-thirds vote to maintain the program, so a minority of the growers could vote the program out.

Senator McConnell. Always in the past, the referendums have been approved overwhelmingly.

Mr. Mackey. We have never had a vote less than 98 percent in the burley belt, that I recall.

Senator McConnell. So one-third, plus one could vote the program out?

Mr. Mackey. That's right.

Senator McCONNELL. Senator Ford.

Senator FORD. I think, Mr. Chairman, the gentlemen here have expressed my views, and let's get down to just one question, as relates to imports which is a question that I'm sure you all are receiving.

I think, Joe, you and Ray were in most of the meetings as it related to the art of compromise, as Billy Carter emphasized earlier. We did bring up the question of imports and even had a proposal limiting the imports 20 percent of domestic consumption that was presented.

What happened to that in the negotiations?

Mr. MACKEY. Well, as stated earlier, this bill is a compromise, and the vying interests just simply would not tolerate anything written into the law that related to the imports.

I might mention that we had one of these cases before the International Trade Commission, under section 22, and when the vote was taken, the commissioners said that the program needed changing, "It's in such condition that we can't determine whether or not to impose import restrictions."

Well, S. 1418 would provide the changes, and if imports do not decline, I would certainly be ready to go back to the Commission and say, "We've changed the program; now give us some relief."

Senator FORD. Bob, we've heard a lot of questions to do away with the tobacco program and it will do away with cigarettes and do away with smoking, that sort of thing. And we know that's not true.

You mentioned one thing that creates a health problem, as it relates to imports. I believe, in your statement, you talked about the pesticides, chemicals, and so forth.

Mr. FROMAN. Yes, sir.

Senator FORD. Would you reemphasize that on foreign tobacco, it's not allowed on ours?

Mr. FROMAN. Well, they really have no regulations, to speak of, on imported. It would all have to be tested if it were going to be brought into the United States, and that would be a terrifically expensive operation, I'm sure, for the Department of Agriculture.

But with the way it's set up in the United States, we are regulated by the 1972 act.

Senator FORD. So what you are saying is that foreign-grown tobacco has no restrictions——

Mr. FROMAN. No restrictions.

Senator FORD. And we do?

Mr. FROMAN. Right.

Senator FORD. And therefore, the health groups would do well to try to limit the imports of foreign tobacco coated with chemicals not allowed in this country.

Mr. FROMAN. Right, because people are going to smoke anyway; we might as well do the best job we can to keep it safe.

Senator FORD. Mr. Chairman, I think that each of these have related to the problems of the farmers, the economic conditions. I think the other group that comes from Kentucky, that will testify shortly, comes from the bankers, the chamber of commerce, the fertilizer, auto dealers, general business, and I think this is the economic factor that we have to look at.

Several years ago I conducted hearings, and I think it's significant; we may want to go back and relate to some of those as it relates to the economic impact of tobacco in Kentucky. Ray, you remember that; and Joe, I think both of you remember those, and when we went to the university—Western State University—and listened to those who were in school, and the reason they were there and their ability to get an education, because they had a crop to raise, and their labor was the amount of money that they took in order to go to school, get an education, and still have a future, so I am anxious to listen to the economic impact.

Yes, sir?

Mr. **Mackey**. I might add that whatever the impact was in those hearings that you held, it would be worse today.

Senator **Ford**. I understand that.

Thank you, Mr. Chairman.

Mr. **McDaniel**. Could I say one more thing? I failed to mention Larry Forgy, the assistant counsel to the Burley Tobacco Growers Cooperative, and he has given us assistance which is invaluable to what we were trying to do.

Senator **McConnell**. Well, I would certainly like to second that; Larry has been an integral part of the negotiations, a great help to all of us.

Thank you, gentlemen.

The **Chairman**. Let me say this, that we have heard two panels, and Senators Ford and McConnell are proud of their Kentucky folks, and I'm proud of my North Carolina folks. Whenever you talk about tobacco folks, you can always tell them, but you can't tell them much, can you?

Now we have another distinguished panel, Bob Clements who is vice president of R.J. Reynolds Tobacco Co. in Winston-Salem, NC; O. Witcher Dudley, vice president of Philip Morris in Richmond, VA; Dewey R. Tedder, senior vice president of Lorillard, Greensboro, NC; Ernest Pepples, senior vice president and general counsel of Brown and Williamson in Louisville, KY; and Bob Bouse, American Tobacco Co. in Durham, NC.

Let me say about these names, I have talked to some of them late at night, early in the morning—I remember one conversation that started at 6:15, trying to negotiate—that was early-on—and we are still working together, and I appreciate the patience of both sides.

It's a thorny problem, but you gentlemen have certainly provided your input, and I appreciate it.

So, Mr. Clements, we will start with you and go down the list. Welcome.

STATEMENTS OF ROBERT E. CLEMENTS, VICE PRESIDENT, R.J. REYNOLDS TOBACCO CO., WINSTON-SALEM, NC; O. WITCHER DUDLEY, VICE PRESIDENT, PHILIP MORRIS, U.S.A., RICHMOND, VA; AND BOB BOUSE, AMERICAN TOBACCO CO., DURHAM, NC, AS PRESENTED BY DEWEY R. TEDDER, SENIOR VICE PRESIDENT, LORILLARD, GREENSBORO, NC, ACCOMPANIED BY ERNEST PEPPLES, SENIOR VICE PRESIDENT AND GENERAL COUNSEL, BROWN AND WILLIAMSON TOBACCO CORP., LOUISVILE, KY

Mr. CLEMENTS. Thank you, Senator, and Senator Ford, and Senator McConnell, for inviting us here.[1]

Since the manufacturers have the same points of interest here, rather than us read our individual commitments, Dewey Tedder will read a statement for the manufacturers today.

The CHAIRMAN. Very well. Mr. Tedder.

Mr. TEDDER. Thank you, Bob.

Mr. Chairman, distinguished members of the committee, and certainly I would like to give some kind words to your staff that has worked so diligently during this entire process, every one of them.

We would like to thank you for the opportunity of appearing here today to offer comments and respond to questions regarding Senate bill 1418.

I would like to make a few brief comments regarding Lorillard's position on this bill.

Mr. Chairman, as you know, discussions have been going on in the tobacco industry about a new legislative tobacco program for many months.

My company, Lorillard, has consistently stated its position that legislation must be enacted which resolves the problems plaguing the current program.

Lorillard has also cooperated with the staff of the Senate Agriculture Committee to develop a legislative proposal for a tobacco program for the future covering Flue-cured and burley tobacco. We have consistently said that Lorillard favors a market-oriented tobacco program for the future which includes: One, the establishment of price support levels which would result in U.S. tobacco becoming competitive in the world market; two, a quota-setting mechanism that would reflect the most reliable and current demand; three, a price support formula for the future that would be market oriented; four, a program that would include adequate provisions for reserve supply; five, a sharing of assessments on future crops; six, provisions enabling a buyout of substantially all of those Flue-cured and burley tobaccos under loan from the 1984 and prior crops.

Mr. Chairman, Senate bill 1418 is far from the kind of bill we would have preferred in many important respects. However, Lorillard believes that the bill contains sufficient elements of market-oriented, demand-based principles to warrant our support. Therefore, we favor this legislative package and trust that it be understood that the elements that we noted above, and which are incorporated in the legislation are interdependent and balanced very precariously. If one important part of the package is modified, then the entire package will fall.

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[1] See p. 84 for the prepared statement of Mr. Clements; see also p. 87 for the prepared statement of Mr. Bouse.

Mr. Chairman, let me give you some highlights of some of those critical elements which would tip the balance of this compromise against my company's interest.

No. 1, a change in prices contemplated in Senate bill 1418; No. 2, increase in the quantities of stocks contained in the buyout proposal; No. 3, imposition of an earmarked excise tax; No. 4, distorting or distruction of a market-oriented support formula by overweighting such an index with non-market-oriented mechanisms.

We are optimistic that this bill will pass, and if this happens we are hopeful that a sufficient level of participation will occur with respect to the buyout to lead to participation by Lorillard.

Thank you.

The CHAIRMAN. Let me be sure I understand; essentially, Mr. Tedder has just spoken for the entire panel, and each of you will have a statement for the record.

Mr. CLEMENTS. That is correct.

Mr. DUDLEY. I think Mr. Tedder has given Lorillard's position, which has a lot of similarities to ours, and we didn't want to take up the time reading all these statements. I believe Philip Morris' statement is already in the hands of the panel; I can give you another copy of that.[1]

The CHAIRMAN. We have it.

Now, let me go down the line and ask if each of you has any further comment in addition to the general statement.

Mr. CLEMENTS. I think that Mr. Tedder's position from Lorillard pretty well states our position right now.

The CHAIRMAN. Very well.

Mr. DUDLEY. Ours is very similar and raises the same points, and also endorses the bill, S. 1418.

The CHAIRMAN. I guess maybe what I'm getting to, let's suppose a scenario occurs that this bill, or something similar to it, is not enacted, and signed into law, what do you gentlemen view then to be the future of the tobacco program?

Mr. CLEMENTS. Our view, Mr. Chairman, would be that the program more or less would go belly up. We don't see how the day that a price support quota, operating with the same $1.70 and $1.75 numbers could survive, due to the fact that the domestics, looking at this in regard to that level of support, I think that the export business would look at it the same way.

The CHAIRMAN. Does everybody agree with that?

Mr. DUDLEY. Yes.

Senator FORD. I just have one question, Mr. Chairman. I appreciate the opportunity you are allowing me, since I'm not a member of this committee, to be involved in something that is so important to my State, along with my colleague.

I think now is the time for you, as a group, to have an opportunity to rebut something that I get quite often, and many of my colleagues have criticized S. 1418 as legislation, written by the companies which give them the mammoth windfall of cheap tobacco.

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[1] See p. 85 for the prepared statement of Mr. Dudley.

I want to give you gentlemen the opportunity to rebut that here today. I don't know whether you want to or not, but here you are, and turn the cameras on.

Mr. **Tedder**. Senator Ford, if I might take the first crack at that, and speaking solely for Lorillard, if Dewey Tedder and the Lorillard attorneys were drafting this legislation, as we indicated with the very first meeting that we had with the Senate staff, the price support levels would be somewhat lower than are proposed in this legislation. That's No. 1.

No. 2, we never agreed to including any type of a price—of a producer price index into the formula. Rather, what we did, we deferred to you, the Senators of the Agriculture Committee, to write the legislation, using your best judgment in terms of what would be something fair and balanced, from your point of view. The bottom line is, we would not have included a producer price index whatsoever in the legislation.

Needless to say, we would not be anxious to share in no-net-cost assessments for the future. We certainly would not have been willing to share in the penalties for underpurchasing our projected intentions, because that's a potential cost item.

Last but not least, we would certainly have not offered a conditional agreement to participate in the buyouts for tobacco which we simply don't need, so the assumption that this legislative package has been written by and for the companies is absolutely untrue. It has no basis in fact for the reasons that I have just outlined.

However, we do feel that a viable tobacco program for the future is in everyone's best interest, and give and take is part of a process, including the process in Washington.

That's the best answer I could give to your adversaries who have criticized your bill.

The **Chairman**. As a matter of fact, every step of the way, each of you, your companies, has listened to, discussed with, negotiated with rural representatives, haven't you?

Mr. **Tedder**. Yes, sir.

Mr. **Clements**. Yes, sir.

The **Chairman**. It comes to mind—I don't know if he is in the room—is Bruce Flye here? Bruce, stand up.

I want to pay my respects to Bruce for the astounding amount of time that he has spent. He has gone to each of you time and time again; there has been telephone conversation after telephone conversation. Bruce, I want you to know that all of us on the committee appreciate your efforts. You are a good citizen, you are a good friend. I wanted to pay my respects to you. I know these gentlemen and the growers whom you have represented so well appreciate it.

Mr. **Flye**. I don't deserve it, but I appreciate it.

Mr. **Pepples**. Mr. Chairman,[1] in answer to Senator Ford's question, I think it ought to be pointed out that the principal beneficiary is the U.S. Government, and if there is a relief going on here, or a bailout, the beneficiary is the U.S. Government with its billions of dollars tied up in inventory—a mountain of inventory that has already been picked over and left there at very high prices. So the buyout that is authorized under S. 1418 is, in a way, a bailout of the Government.

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[1] See p. 88 for prepared statement of Mr. Pepples.

The CHAIRMAN. Mitch.

Senator MCCONNELL. Any of you, from a manufacturer's point of view, how do you see this issue of imported tobacco in the future? Where do we go from here on imports?

Mr. PEPPLES. Senator McConnell, you have heard from Mr. Mackey and others, I think, very good answers to the question about imported tobacco.

The only thing I think we would add to the points that have been made is we are buying out a lot of inventory and we've committed to buy the 1985 crops and future crops, and against those commitments, we just don't have the capacity to take more tobacco.

Senator MCCONNELL. I think this takes care of the next one.

Mr. PEPPLES. I think this bill really has, inherently, the mechanism for preventing heavy imports; but beyond that, it must be pointed out that if a sound support program is going to proceed, it has got to be export-driven. We've got to engage in worldwide price competition with our U.S.-grown tobacco. We used to enjoy it; in the 1955–59 period, the United States had 60 percent of the world exports. That declined in 1980 to about 25 percent. We have got to regain a larger share of world exports.

The cigarette market is flat now in the United States. On the other hand, the world export of tobacco is going up, and the figures are really quite dramatic. Unfortunately, the U.S. part of that growth market has been declining. Now, that's what we have got to reverse; and if we put some kind of import restriction in this legislation, it will be seen as a domestic content provision. It will be a red flag to our trading partners, and they will retaliate. The companies here before you today are actively penetrating markets abroad with our U.S.-made cigarettes. We see the U.S.-grown tobacco also enjoying a greater part of the world export market, if we can get this price situation under control.

We have seen great opportunities lost in recent years for one reason—price supports divorced from reality. This bill, I think, does a good job of trying to correct that.

Senator MCCONNELL. Any of you, assuming S. 1418 becomes law, what happens if you all underestimate and what happens if you overestimate the projections of purchases of tobacco in a given year?

Mr. TEDDER. Senator, if we would underestimate our purchase intentions, we are thereby creating a shortage of supply, and the pure and simple economic factors of supply and demand would take over and would probably work to our detriment. There would be everything to lose and nothing to gain with us underestimating our purchase intentions.

On the other side of the coin, if we overestimate, then we are partners in commerce with the growers, whereby if we do not purchase at least 90 percent of our expressed intentions, we are faced with a penalty equal to twice the assessment.

So I think on the high side of our purchase intentions, where we are protected, from a financial point of view, by not wanting to overestimate because of the economic penalty involved. To underestimate would simply be a ticket to a short supply, and would not be in our best interests.

Senator McCONNELL. Thank you. I, like Senator Ford, have heard many people say of you all that somehow it is a manufacturers' relief bill, and I wanted to go over that point one more time.

Mr. Dudley, how much Flue-cured tobacco do you think will go under loan if the tobacco markets open at $1.70 and what happens if burley goes to market at $1.81?

Mr. DUDLEY. I don't think manufacturers can buy for their companies tobacco at a high price, if it is assumed that something is going to be done in another year. I believe people will reduce their buying.

The amount is very difficult to estimate. The demand for Flue-cured and burley is made up of a demand from many, many companies throughout the world.

I would say that—I'm in agreement with a lot of the statements that in Flue-cured they would get some 200 million pounds in the pool, which is far too high, particularly when you consider the fact that the crop this year is under disappearance—it's not a big crop of Flue-cured. Burley would be somewhat similar; they would definitely get more than they would under normal market conditions, when people know what the price is, and they know what the future expectations of prices are.

Senator McCONNELL. I suppose no one has an entirely clear crystal ball, but I would like each of you to just briefly speculate what would the future domestic tobacco industry be like if there were no tobacco program.

Mr. CLEMENTS. Senator McConnell, I think the first thing that we want to make the position clear, on Reynolds' point, that we want a program, and if we hadn't wanted a program, we wouldn't have been involved in these past months to the extent that we have been.

We like a tobacco program; it provides, certainly, an orderly marketing system, so, therefore, we like the system. We, as Reynolds Tobacco Co., do not want to get into a contractual kind of plan, so with the passage of this legislation, we think this puts this program on a sound, economical basis for the future, and that's what we are working so hard for.

Senator McCONNELL. But in the absence of the program, there's not much doubt in your mind, is there, that it wouldn't be economical for the little guy to continue in the tobacco production business?

Mr. CLEMENTS. Senator, that is hard to answer right now. I haven't been involved in contractual growing, and I think, from what we are seeing, that it says that the larger farmer could very well—or grower—could take over and, therefore, the smaller grower would eventually be phased out.

Senator McCONNELL. I would say that's extremely likely, wouldn't you?

Mr. CLEMENTS. It's possible.

Senator McCONNELL. Anyone else?

Mr. DUDLEY. I think the main feature of the program is that you get a stable supply. We, at Philip Morris, need American tobacco to make our cigarettes—it's the backbone of our blends in this country, our export of cigarettes, and in many countries of Europe. There are a few countries in South America where it is prohibited to import tobacco. But we like to use American tobacco; we need a supply every year We need a stable price—if you don't have a program, unless you have got some sort of a contracting plan, you are going to have large production 1 year, the price will drop; the next year people expect a low price, they don't plant any, and the price goes up—you just get a yo-yo effect. And it's hard to live with and it's hard for companies to plan what to buy.

Mr. PEPPLES. Senator McConnell, with regard to a collaspe of the tobacco program, I think one point needs to be made. If there is no buyout, it would mean an awful lot of tobacco in the Government's hands, for which there is no ready market. That's a very serious problem, which I know you all are very well aware of.

Regardless of what happens with the program however, I think good tobacco will be grown in Kentucky and in the Carolinas. It will not be grown in Texas or California. I think there will be chaos for a while, and we will go through a period of great instability, but tobacco will continue to be grown in the States which now grow it.

I think Senator Strom Thurmond's remarks and others today have identified—and you yourself, Senator McConnell, pointed out the main casualty. The small grower is the guy who is getting hit. He has been the beneficiary of the program that President Roosevelt put in half a century ago. It's worked extremely well for him and if the reforms in S. 1418 are enacted it can continue to benefit the small producer.

Senator McConnell, you mentioned that of all the commodities the committee has been dealing with, the tobacco program has the best record.

Now, that's what we are trying to preserve; and the growers came to us, the producers associations came to us with this proposition for a buyout of the mounting surpluses. We would like to see the safety net extended to the small grower because he is the one that is going to be hurt here; the thousands of families that you heard mentioned today are the ones who will suffer if S. 1418 is not adopted.

Senator McCONNELL. Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you, Mitch. We will conclude this, but I think the point needs to be emphasized, and I tried to do it at the outset in my remarks, but we need to look at the history of this industry, at this program.

Now, true enough, we've run into shoals for the time being, but if Congress has the wisdom and the patience to help us off this spot, and if we will continue the unity and the give and take that we have, I think the finest hour is yet to come.

For example, I had lunch about a year ago with Prime Minister Nakasone. I was bragging to him about the U.S. cigarette penetration in the Japanese market.

I don't think a lot of people stop to think about what it would do to the disposition of tobacco in the United States if we could just increase the 2-percent penetration we have now. Say we go to 5, 6, or 7 percent, that would have a remarkable effect.

Mr. Nakasone promised me he would go look after it, and he did, in a way, but then that salt and tobacco monopoly—and they are honest enough to call it a monopoly over there—they adjusted it so that Nakasone's favor to me was sort of a nullity.

But the point is, that every company represented here is working in Korea, Japan, and other markets around the country, and that is where the future of tobacco lies, not in regression or throwing up our hands and saying that all is lost.

I know a lot of people don't like tobacco, but they are not talking about the tobacco program; they are talking about something that is irrelevant because, as has been said over and over here this morning, it's not a matter of stopping smoking—people are not going to do that; it's just whose tobacco will they be smoking and what quality it would be, and that sort of thing.

But I want to say again that I share Wendell's and Mitch's views about the specious allegations that are made of assessments. This bill is by no means perfect, but it sure does represent as much compromise as I have seen around this place in the 12½ years I have been here.

I want to thank you for the patience that you have shown and the cooperation you have shown, and I want you to keep it up.

Thank you very much and we will proceed to the next panel.

We will now hear from Dr. Hugh Kiger who is executive vice president of the Tobacco Association of the United States, and Leaf Tobacco Exporters Association, and Jim Felts, president of Burley Leaf Dealers Association.

Well, I will say this, that both of these gentlemen have been here before, and I know they will make a good record and help us conserve time.

Hugh, it is good to see you, and thank you both for coming.

STATEMENT OF HUGH C. KIGER, EXECUTIVE VICE PRESIDENT, TOBACCO ASSOCIATION OF UNITED STATES AND LEAF TOBACCO EXPORTERS ASSOCIATION

Dr. **Kiger**. Thank you, Mr. Chairman. I am Hugh C. Kiger, executive vice president of Leaf Tobacco Exporters and Tobacco Association of United States.

I might say, first of all, that the members of these two associations purchase about 70 percent of the U.S. crops, and exports most all of the unmanufactured tobacco going to overseas markets.

I know I do not have to point out to this group the importance of the export market. Actually, in the case of Flue-cured tobacco in the form of leaf or product, it provides an outlet for about 60 percent of the crop; in the case of burley, this is about 30 percent.

As has been indicated by some earlier speakers, the U.S. share of both world production and trade has been declining sharply in recent years. These declines were especially sharp during the seventies and early eighties, and much of this was due to the high level of price supports here in the United States.

Our prices have been supported at a level which has tended to price us out of the word market. We feel that legislation was needed several years ago, and we recommended such legislation.

During this rather ~~recent period~~, there have been a number of suggestions, perhaps, that maybe the answer to some of the problems were protectionist measures, or limitations on imports.

I would just like to say in that connection that we feel that limiting imports is not the answer to the problem. Actually, just recently, the ITC held another hearing—it was the second in the last 3 or 4 years—and they came to the conclusion that imports were not interfering and were not likely to interfere with programs of the Department of Agriculture, and they also indicated that even if you limited imports, that the enormity of the problem would be essentially the same.

I might also point out, in connection with trade, that in the case of Flue-cured tobacco, we export some 500 million pounds and import about 100 million pounds, thus we have a net favorable trade in Flue-cured tobacco of about $400 million, and overall tobacco, tobacco and tobacco products, we have a net favorable balance of trade of about $2 billion.

I think I might indicate, too, that, as has been mentioned by some other speakers, I think there are incentives in the present bill, S. 1418, in terms of the price, as well as the financing of the program, that provides some very positive incentives for reducing imports.

I feel that we need this legislation to make our tobacco more competitive, and especially also in order to orderly dispose of the loan stocks ~~which~~ we have on hand.

We favor S. 1418 because we feel that it moves us in this direction. As a whole, we feel that it is a good bill. Our preference probably would have been for a somewhat lower price support level of $1.25 or $1.30, but I think that probably $1.40 is the best that you could get, under the circumstances.

I might also indicate that our organization has some concern relative to the types of expenditures of the assessment fund, which has been expressed to the staff in letters.

It would be my feeling, on an overall basis, that unless this or a similar bill is passed soon, that the program would collapse. We feel that it is very important that something be done as soon as possible.

I think, just as evidence of that, I was looking the other day at a telegram from our Embassy in Zimbabwe. The Zimbabwe Tobacco Association just recently announced that they were increasing their production by at least 11 percent for 1986, and in doing that they indicated that they describe this new target as a floor, not a ceiling. It reveals that the Zimbabwe Tobacco Association's opportunities, in light of the U.S. farm bill, and what Zimbabwe expects will be some confusion in the U.S. tobacco industry. In other words, they are saying, more or less, that you have confusion there, we're going to capitalize on it.

In conclusion, just let me say that I would like to commend Senator Helms, Senator Ford, and the Senate Agriculture Committee staff for the tremendous job you have done in pulling this S. 1418 together. I think you have done an excellent job in coordinating this bill, and that you have our full support in getting it through Congress.

Thank you.

The **Chairman**. Mr. Felts.

STATEMENT OF JAMES H. FELTS, PRESIDENT, BURLEY LEAF TOBACCO DEALERS ASSOCIATION

Mr. **Felts**. Mr. Chairman, the 24 members of the Burley Leaf Tobacco Dealers Association are also members of the Leaf Tobacco Exporters Association. Many of the things that Hugh has said concerning how much tobacco our members buy and export relate to members that I represent.

The Burley Leaf Tobacco Dealers Association basically supports Senate bill No. 1418. We think that the lowered price support levels should, in time, encourage offshore buyers to use more U.S. tobacco in their products.

We are somewhat concerned that the formulas for setting future price support levels guarantee escalation of price supports and may not reflect future international market conditions, as regards price as affected by international supply and demand.

We realize, however, that the referenced bill is the result of several months of intense negotiations between all segments of the tobacco industry. Although the bill is not what each segment might necessarily consider the best solution, it has basically been agreed to by all segments and addresses the basic problems facing the tobacco program in order to maintain a program in the interest of all segments of the industry.

We support the bill; we salute you and your staffs for pulling this all together and getting it this far along.

The **Chairman**. Thank you very much.

Any questions, Senators?

Senator **Ford**. I've got two, Mr. Chairman.

Hugh, we're edging toward a $150 billion deficit in the balance of trade, and it's forced this country to become a debtor nation. My hope is and my belief is that S. 1418 will boost agricultural exports, and any costs associated with this bill, I think, should be looked on as an investment as it relates to improving our position, however small it might be—you talked about $2 billion a while ago—and in reducing that deficit and balance of trade. Do you feel we have a possibility in that?

Dr. **Kiger**. Yes, I think we have a tremendous possibility there. Actually, it appears that the domestic market is going to be somewhat stable in the period ahead. The real opportunity for expanding production and trade in this country is expansion of exports, and I think that there are opportunities, particularly in a number of the developing countries where you are going to get an increase in population, increase in disposable income.

As I mentioned before, the net favorable balance of trade in tobacco, tobacco and tobacco products, is $2 billion. I think if this bill or a similar bill is implemented, that this could increase very substantially in the period ahead, help resolve this overall problem.

Senator **Ford**. What you are saying, then, is that tobacco accounts for one-eighth of the surplus in balance of trade, as it relates to agriculture?

Dr. **Kiger**. Yes; this is correct.

Senator **Ford**. Whereas agriculture contributed $16 billion in net trade and in 1980 it was about $23 billion, so we have declined overall, and this would help reverse that trend.

Jim, let me ask you this, I've been told that the so-called, quote, "American cigarettes," end of quote, is becoming more popular around the world. Am I correct in saying that the blend is just beginning to take hold around the world, as such?

Mr. **Felts**. Depending on what area of the world you are talking about. I think in Latin America, in most all of the Americas, the American blend is in, and the same way in Western Europe, with the exception of the British Isles. In the Far East, it is still predominantly an English blend, with some few exceptions. So we look for the increase in burley exports to be somewhat better, possibly, than even Flue-cured exports, based on the American blended cigarettes gaining inroads into markets that have historically been for English-style cigarettes.

Senator **Ford**. Well, what you are saying, then, is that the American, or the burley-blended cigarettes, will catch on more and is improving; and when we get the proper price or get it down to where we are competitive, then, hopefully, the better quality in the American burley would give us an increase in exports.

Mr. **Felts**. We think so.

Senator **Ford**. This bill, then, without laying it out word for word, you have the feeling that it would move in that direction?

Mr. **Felts**. Oh, definitely, by getting the price support effectively reduced.

Senator **Ford**. Thank you, Mr. Chairman.

The **Chairman**. Hugh, this may be an unfair question, but you have a computer mind—I've watched you operate for a long time. I go back to the history of this program, can you flick off the figures for me—this is not prearranged, but go back for 10 or 12 years, if you can—if you can't, supply it for the record—as to the impact tobacco has had on the balance of trade. Can you do that, just off the top of your head?

Dr. **Kiger**. Well, I would say this specifically, that just during 1984, as I mentioned, it was a plus $2 billion. It's been in that range for the past several years—some years over $2 billion, up to $2.5 billion, some years dropping a little bit under that.

The **Chairman**. But always there?

Dr. **Kiger**. Always a very important factor, and, as Senator Ford indicated, a very important part of the total net favorable balance of trade, and agricultural products, as a whole.

The **Chairman**. You had better believe, in response to your comment, that people in other countries prefer, in the main, American-made cigarettes.

The President sent me over to Geneva a couple of years ago to the GATT Ministerial, and I guess he wanted a rough element represented. My responsibility was to meet with the various delegations from various countries and talk turkey to them about what's going on in some of these subsidized exports and that sort of thing.

But I remember one day, Hugh, I met with the Japanese delegation, five or six of the nicest fellows you ever saw, and the experience will be indelible in my mind because all five of them were smoking furiously. They were lighting end-to-end, and you seldom see anybody do that anymore, and they were pulling cigarettes out of every pocket, and they were all American-made cigarettes.

Dr. **Kiger**. They are very popular.

The **Chairman**. I said, "Where did you get those cigarettes?" They said, "Ah so, we got them so and so," but they prefer them. Now maybe they don't smoke them in Japan or maybe they take American-made cigarettes and put them in their Japanese cover or whatever, but anyway they were really puffing that day.

That's where our future lies, and I don't think that anybody would disagree that the American growers have been engaged for a long time in quality performance, and manufacturers have, so all we have got to do is push what we've got, and get over this hump, and with the give and take that is so evident, if this legislation is enacted, which I hope it will be, we will be on our way again.

Thank you very much, and I appreciate you all coming.

Now, Mr. Ford, we come to the Kentucky delegation; you present those folks.

Senator **Ford** [presiding]. Mr Chairman, we have a group, as I alluded to earlier, that I think will give us the insight, as it relates to the economy and how important tobacco is.

We have Floyd Hensley, agriculture committee chairman, Kentucky Bankers Association; Tony Sholar, government affairs director, Kentucky Chamber of Commerce; William Quisenberry, executive director, Kentucky Fertilizer and Chemicals Association; John Galloway, a businessman from Paris.

Mr. Chairman, this is a distinguished group, they understand the problems.

Floyd, we will let you go first; we'll go based on the schedule here, as it's called.

STATEMENT OF FLOYD HENSLEY, AGRICULTURE COMMITTEE CHAIRMAN, KENTUCKY BANKERS ASSOCIATION

Mr. **Hensley**. Thank you, Mr. Chairman, and distinguished Senators from Kentucky, members of the U.S. Agriculture Committee.

I am Floyd T. Hensley, Jr., chairman of the Taylor County Bank Board of Directors, the executive vice president and cashier; also chairman of the Kentucky Bankers Association Agriculture Committee.

The Kentucky Bankers Association is a trade association having as its members 335 of the 336 State and national banks in Kentucky.

Kentucky is predominately a rural State, with many small family farms. The average size farm in Kentucky is 140 acres. Kentucky is not a rich State. Total deposits held by the Kentucky banks, as of December 31st, 1984, was just under $22.5 billion.

I am not here to comment on the merits or possible shortcomings of the proposed legislation. I am here to tell you of the importance of the tobacco price support and allotment program to the economy of Kentucky's many small rural communities.

In March of this year, we surveyed our member banks to establish the impact that the elimination of the tobacco price support program and quota system would have on their banks and their respective communities.

One hundred and forty-four banks responded to the survey; 107 banks, or 74 percent, reported agriculture as the major economic force in their community; 11 percent reported small industry; 9.5 percent reported coal; and 2 percent reported large industry as the major economic force in their community.

Eighty percent of those banks indicating agriculture as the major economic force in their community stated that tobacco was the major cash crop. The vast majority of the banks reported a high percentage of the farms in their area having tobacco allotments.

It only follows that many of the loans secured by real estate are secured by real estate having tobacco allotments. One hundred and twenty-three of the banks expect real estate values to drop if we lose tobacco allotments. This would further increase the already difficult situation of many farmers and farm lenders. We can expect more foreclosures of farmland and equipment.

In addition to this possible loss in collateral value, most rural banks expect a reduction in their deposit base if we should lose our tobacco program. This would also adversely affect the banks and their communities. One hundred and seventeen banks gave a real number estimate of the deposit loss, ranging from zero to $15 million in their particular bank.

The general consensus of the banking community in the tobacco-growing areas of Kentucky is the loss of the tobacco program would bring on many small business failures and reduction in sales of farm supplies and equipment, as well as automobiles and trucks, small appliances and so forth. Well over 50 percent of the banks expect to see unemployment go up drastically.

Recently, a banker from Morgan County in eastern Kentucky called our association office to encourage our efforts to save the tobacco program. Morgan County is in the mountainous section of our State and has very little tillable land. He stated that the two banks in his county had accounted for $9 million that had come into their banks this past year from the sale of tobacco.

He was very concerned because Morgan County simply could not afford to lose a $9 million payroll. A great number of people in his community rely heavily on the income from tobacco, and have for years. This situation is typical of the many communities throughout the Commonwealth of Kentucky.

We realize the tobacco program has problems, and encourage you to seek solutions to these problems, but, please, retain allotments and price supports.

Thank you, Mr. Chairman, for permitting me to make these remarks. For your information, I have attached to my remarks a copy of our survey results.

Thank you.

The CHAIRMAN. Thank you very much, and your survey will be included in the record.

[The following survey results were received for the record:]

ECONOMIC IMPACT OF BURLEY TOBACCO IN THE STATE OF KENTUCKY

In March of this year banks of Kentucky were asked to participate in a survey to establish the impact that the elimination of the tobacco price support program and quota system would have on their banks and communities. One hundred forty-four (144) banks responded to the survey. One hundred and seven banks (74%) reported agriculture as the major economic force in their community. Eleven percent (11%) reported small industry, 9.5% reported coal and 2% reported large industry as the major economic force in their community.

The survey was prepared and compiled by the U.S. Burley Tobacco Producers Association in cooperation with the Kentucky Department of Agriculture and the Kentucky Bankers Association.

GROUPINGS

The purpose of the survey was to establish the impact that the elimination of the support price program and quota systems would have on the various communities in Kentucky from professionals who have to deal with farm financing and general community financing on a day to day basis.

Therefore to establish groupings that would arrive at the tobacco impact we grouped the banks into 4 categories.

Group 1, was those banks that list tobacco as the major agricultural crop.

Group 2, list tobacco and other crop(s) as being about equal in their community.

Group 3, listed tobacco as a crop in their area but not as major as some other agriculture commodities.

Group 4, said no tobacco was grown in their area.

TOBACCO IMPACT SURVEY OF BANKS AND THEIR COMMUNITIES

Summary raw data sheet

Number Reporting; 144.

1. Location of Banks.

A. Metropolitan	1
B. Suburban	7
C. Rural area	136
Total	144

2. What is the predominate economic force in your area? (Large industry, small industry, agriculture, coal, other).

Economic force	Rank 1	Rank 2	Rank 3	Total rank
Large industry	3	11	22	36
Small industry	16	81	21	118
Agriculture	107	18	12	137
Coal	14	7	4	25
Other	4	16	27	47

Other economic forces mentioned were: sales and service, tourism, retail business, commercial, schools, welfare, government.

3. If you are primarily a rural bank, what is the major crop in our area?

Major crop group:	*Banks reporting by crop group*
Tobacco	97
Tobacco and grain	17
Grain and other	23
No tobacco	6

Group 1, out of 97 banks reporting tobacco as the major cash crop in their area 78 (80%) stated agriculture was the major economic force in their area.

Group 2, the 17 banks that list tobacco and other commodities being equal 13 (76%) reported agriculture as the major economic force in their area.

Group 3, 23 banks reported tobacco grown in their communities but did not report it as one of the major crops. Thirteen (56%) reported agriculture as the major economic force in their community.

Group 4, 6 banks reported no tobacco grown in their communities. Three (50%) reported agriculture as the major economic force in their community.

One hundred and seven banks (74%) reported agriculture as the major economic force in their communities. 11% reported small industry, 9.5% reported coal and 2% reported large industry as the major economic force in their communities.

4. If other than tobacco, what percent of your economic base is tobacco related? (Follow up to question 3.)

Twenty three banks responded to this question. The average was 17.3% tobacco related; the range was 3 to 45%.

5. What percent of the farms in your area have tobacco bases?

Percent:	*Number banks*
0	6
0 to 10	7
11 to 30	10
31 to 50	10
51 to 75	10
76 to 100	101

6. What percent of the dollar balance of your loan portfolio consist of loans secured by real estate that has tobacco allotments?

	G-1	G-2	G-3	G-4	Total
Percent:					
0	0	1	5	6	12
0 to 9	16	1	13		30
10 to 19	24	1	2		27
20 to 29	19	6	1		26
30 to 39	9		1		10
40 to 49	2	1			3
50 to 59	11	3			14
60 to 69	1				1
70 to 79	5	1	1		7
80 to 89	1				1
90 to 99	1	1			2
100	3	1			4
Total	92	16	23	6	
Average percent by group	29.8	41	12	0	

Note.—Overall average for all banks, 26.4 percent—Range 0 to 100 percent.

7. If farms in your area lose their tobacco allotments, would you expect real estate value to drop? If yes, what percent?

Yes—123; no—18.

	G-1	G-2	G-3	G-4	Total
Percent drop:					
0	1	2	9	6	18
0 to 9	4	3	1		8
10 to 19	12	4	7		23
20 to 29	34	4	7		45
30 to 39	18	1			19
40 to 49	11				11
50 to 59	13				13
60 to 69	3				3
70 to 79					
80 to 89					
90 to 99					
100					
Total	96	14	24	6	141
Average percent by group	31.75	18	10	0	

Note.—Overall average for all banks, 27.1 percent—Range 0 to 70 percent.

8. Would you expect to have a reduction in your banks deposit base if the tobacco program is abolished? If yes, give a dollar estimate.

Yes—121; no—21.

	G-1	G-2	G-3	G-4	Total
Amounts:					
0	3	3	9	6	21
$0 to $249,000	4	1	4		9
$250,000 to $499,000	1	1	1		3
$500,000 to $990,000	9	1	2		12
$1,000,000 to $1,990,000	18	2	1		21
$2,000,000 to $2,990,000	15	2			17
$3,000,000 to $3,990,000	4				4
$4,000,000 to $4,990,000	7				7
$5,000,000 to $5,990,000	7	1			8
$6,000,000 to $6,990,000	6				6
$7,000,000 to $7,990,000	3				3
$8,000,000 to $8,990,000	2				2
$9,000,000 to $9,990,000	1				1
$10,000,000 and over	4				4
Total	84	11	18	6	118

Note.—118 banks gave a real number estimate.

Average loss:	*Number banks reporting losses*
Group 1—$3,326,000	(81)
Group 2—$1,678,000	(8)
Group 3—$428,125	(8)
Range—$0 to $15,000,000	

Total estimated losses reported:

Group 1—$269,385,000

Group 2—$15,100,000

Group 3—$3,425,000

Total—$313,960,387

9. Would you expect to have foreclosures of farmland and equipment if tobacco allotments and price supports are abolished? If yes, give a dollar estimate of your losses.

Yes—104; no—35.

Average estimated losses/banks:	*Number banks estimating loss*
Group 1—$847,100	(64)
Group 2—$416,650	(3)
Group 3—$79,160	(6)
Estimated foreclosures $55,940,000	

Note.—73 banks out of the 104 stating they would expect losses gave real number estimates.

10. What effect would the loss of the tobacco revenues have on your customer base?

The general consensus of the banking community in the tobacco growing area of Kentucky is that the economy would be paralyzed. Small business failures, reductions in sales of all farm supplies, auto and truck sales would drop if the tobacco program was eliminated.

11. What non-farm problems would you foresee with the ending of the tobacco program?

Well over 50% of the banks stated that unemployment would go up drastically, welfare payments would increase and crime would increase due to thefts. The non-farm businesses would suffer as much as the tobacco farmer from the lack of dollar flow in the various communities.

12. If the tobacco program were abolished, would you expect a reduction in the bank employees.

Sixty-four (64) banks stated they would have employee reduction at their bank. Several stated that the domino effects would create massive problems for their community and bank.

The CHAIRMAN. Mr. Sholar.

STATEMENT OF TONY SHOLAR, GOVERNMENT AFFAIRS DIRECTOR, KENTUCKY CHAMBER OF COMMERCE

Mr. SHOLAR. Thank you, Mr. Chairman, Senator Ford, and Senator McConnell.

My name is Tony Sholar; I am director of government affairs for the Kentucky Chamber of Commerce. My comments this morning are presented in behalf of our business membership throughout the State of Kentucky. Kentucky's business men and women are very aware of the impact of tobacco on the Kentucky economy.

The Kentucky Chamber of Commerce supports the Tobacco Program Improvement Act of 1985. However, it is not my intention to discuss specific aspects of the proposed legislation, as it is currently drafted.

I will address four areas that Kentucky businessmen are most concerned about, in looking at the impact of tobacco on the Kentucky economy. These concerns are: Jobs, State revenue, effects on local communities, effects on farm banks, and unemployment.

In Kentucky, the revenue from the tobacco price support program helps to sustain the State's $2.1 billion tax base, and directly accounts for more than 7 percent of the State's jobs, to say nothing of the indirect impact. Kentucky's businesses, its schools, and its roads would suffer significantly if the tobacco price support program is ever lost.

The farmers' land, and just about everything else in many of Kentucky's counties, won't be worth their present market value without the program. Without the tobacco price support program, tobacco simply will no longer be grown in many of Kentucky's communities. Without the tobacco price support program, many of Kentucky's communities will turn into ghost towns.

Here are just a few facts concerning tobacco's impact on jobs and State revenue. The total value of Kentucky's yearly crop is $1 billion. This is a total of $2.5 billion to the Kentucky economy, 3 percent of the State gross product.

The direct income of tobacco farmers and farmworkers is one-half of $1 billion; including the indirect effects, the total income attributable to tobacco is $2 billion, 5.5 percent of the total personal income.

A 1-percent loss in tobacco output would mean 545 lost jobs. A 1-percent loss in tobacco output would mean a $25 million loss in the State product. A 1-percent loss in tobacco output would mean $20 million in lost income; $1.5 billion in farm real estate value is attributable to the capitalized value of income from the tobacco quota system. $130 million in State tax revenue is related to tobacco production: $60 million in income tax, $20 million is sales and use tax, $60 million in other general taxes, and $5 million in property taxes. Local governments receive $5 million in property taxes from the value of the quota system alone.

The most important aspect of tobacco, as an economic commodity in Kentucky, is its importance as a source of cash farm income.

Cash receipts from farm marketings of tobacco in Kentucky have been about $700 to $800 million during recent years, and tobacco sales account for 55 percent of the receipts from crops, and nearly one-third of total cash receipts from farm marketings.

In terms of people sharing in the returns from farm sales of tobacco, it is estimated that the average number of families involved in the production of each allotment is approximately 1.5. Consequently, over 250,000 families share in the production and the returns from the State's tobacco crop.

If you use the widely accepted economic multiplier of seven to get a better picture of the number of individuals whose employment is indirectly related to tobacco production in Kentucky, you discover that 1,750,000 jobs are related to the production of tobacco. The total population of Kentucky stands at 3.8 million.

Gentlemen, any loss in the tobacco price support system will affect nearly 50 percent of all Kentuckians. Tobacco is at the heart of Kentucky agriculture, accounting for more than one-half of the total value of all crops grown in the State. Eliminating or seriously reducing the tobacco program would have a devastating effect on all Kentuckians.

Any decline in the prospects for tobacco will have an adverse, and possibly disasterous, effect on Kentucky tobacco farmers. Almost 72 percent of Kentucky's tobacco farmers depend on tobacco for at least 50 percent of their gross farm sales; 75 percent of Kentucky's tobacco farmers have a net annual farm income of less than $20,000; 47 percent of Kentucky tobacco farmers have an annual total family income of less than $20,000.

Sixty-one percent of Kentucky tobacco farmers are 46 years of age or older, and 83 percent grew up on the farm, 44 percent have less than a high school education. These figures indicate that the Kentucky tobacco farmer is strongly attached to farming, and a change in vocation, brought about by the demise of the tobacco price support program, would be extremely difficult for him.

The program is all many of today's farmers have ever known. Most cannot recall the time before the program's inception, when farmers sometimes made only a few cents a pound. At its peak, tobacco is Kentucky's fourth largest industry, behind only Government, manufacturing, retail trade, and the service industries. Tobacco is by far Kentucky's largest cash crop, accounting for more than 50 percent of the total crop receipts of Kentucky farmers.

Tobacco production directly accounts for over 12 percent of the employment in 10 of Kentucky's counties. These counties are among the poorest in the State, including the two poorest. All of these tobacco-producing counties earn less than the average per capita income in Kentucky, which is the fifth lowest State in the Nation; at the same time, these counties have high unemployment rates, currently averaging over 14.5 percent.

Local governments in Kentucky's tobacco-producing counties would have significant revenue in losses should the industry falter. The property tax, in particular, would be immediately affected through declining land values should the returns from tobacco growing fall.

Of even greater concern is the fact that a large portion of Kentucky's farm real estate value is based on the value of the tobacco quota. If the right to grow tobacco were reduced or eliminated, land values would fall dramatically, resulting in losses in property tax revenues.

Since Kentucky's local governments count on the property tax for the majority of their locally generated revenue, the result could be disasterous in tobacco counties. Local education efforts could be seriously jeopardized. The tobacco counties, already characterized by high unemployment and low-average income, would have few options for replacing that lost revenue.

The current allotment program can be credited with part of Kentucky's dispersal in both income and population over the past half-century. However, if the allotment program is ever discontinued, Kentucky would see dramatic shifts in income and population in a very short period of time.

Farmers in poor rural communities would not be able to compete with the farmers in the fertile central Kentucky counties. The farmers in the rural counties would simply go out of business. Kentucky would then face economic and social problems which it has never seen before. There would be a new form of unemployment that the State would be faced with, a new form for which there would be no easy answers.

Elimination of the tobacco support program would have an immediate and devastating effect on the tobacco farmer's credit. That program creates an income stream to the owner of the tobacco allotment in the form of an annual lease value of that allotment. The lease value is then capitalized into the value of the land containing the allotment. Eliminating the program would immediately destroy that value of the tobacco land which is attributable to the income stream from the quota.

Elimination of the program would result in the instant loss of that amount of asset value to Kentucky landowners. Farmers who are now reasonably well-off would find themselves suddenly in debt beyond their net worth, as a large portion of their land asset vanished. Loans would have to be called, bankruptcies would soon follow, and farm banks in tobacco-growing regions could well find themselves unable to survive.

Gentlemen, Kentucky is not a rich State, and in Kentucky the tobacco program goes a long way toward helping everyone.

Thank you for this opportunity to present our concerns.

The CHAIRMAN. Thank you. Bill, you are next.

STATEMENT OF WILLIAM QUISENBERRY, EXECUTIVE DIRECTOR, KENTUCKY FERTILIZER AND CHEMICAL ASSOCIATION

Mr. QUISENBERRY. Mr. Chairman, Senator Ford, Senator McConnell, and members of the Committee on Agriculture, I am William Quisenberry,[1] and I want to thank you for this opportunity to respond to the present crisis situation facing the tobacco farmer and agribusiness community in Kentucky. Presently, the farmer is faced with decreasing demand, increasing surpluses, and lower prices; there is not one bright spot in the farming community today.

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[1] See p. 89 for the prepared statement of Mr. Quisenberry.

Tobacco, as you have heard, is the mainstay of the economy in about 70 counties, out of the 120 in the State of Kentucky. In my county, Clark County, 23 million dollars' worth of tobacco is sold each year. At the present time, there is nothing short of an automobile-manufacturing plant that can replace that much income in our county.

In the State overall, tobacco meant about 1 billion dollars' worth of gross revenue to the farmers of Kentucky in 1984. The effect of taking almost $1 billion away from the economy of Kentucky would be devastating. The ripple effect throughout the economy would touch every part of the economic structure of the State.

In the counties where tobacco is the principal crop, it represents approximately 40 percent of the fertilizer and chemical sales of the local farm supply dealers. That means that if we were to lose the program, some of us dealers would have to go out of business, and jobs and tax revenue would be lost.

My own business is typical: Tobacco supplies make up 42 percent of our gross sales volume. It is questionable as to whether or not we could remain in business with that kind of volume loss. I average 15 employees throughout the year, so 15 hard-working people would be without a job, including myself.

Mr. Chairman, I would like to enter in the record a copy of the survey that our association did of its members on the tobacco program.

If the tobacco program is dismantled by the Senate and Congress, four significant things will happen: One, the United States will grow less tobacco each year until tobacco becomes an insignificant part of our Nation's agricultural economy. We have heard here today how it does contribute to our trade balance.

The United States would eventually lose $4 to $5 billion of potential taxable income to foreign markets because of the very nature of tobacco. What I mean there is that tobacco companies will be paying foreign producers to produce tobacco instead of American farmers. It is a labor-intensive crop, as we all know, and most of the foreign countries growing tobacco have cheap labor, by our standards. So you can readily see, our balance of trade would be seriously affected.

Two, people will continue to smoke, and that point has been made before here today, but they will be smoking tobacco grown in uncontrolled conditions where any number of illegal or dangerous chemicals could be used on the crop. To keep this from happening, our Department of Agriculture will have to extensively test all tobacco coming into the United States. This will be very costly to the taxpayer.

Everyone recognizes the fact that American tobacco has the highest quality, the lowest tar and nicotine; these two things, along with dangerous pesticide residue, are what we want to guard against.

I want to emphasize that by dismantling the tobacco support program, you may actually be increasing the chances of injury to the people that do smoke.

Three, more people will go on the welfare rolls in States that can least afford it. Four, taxes will have to increase somewhere to make up for the loss of the tax revenue generated by a $4 to $5 billion industry lost to foreign producers.

I am sure that most of the people that are against the tobacco support program don't realize that their Federal and State taxes will eventually have to increase because of the loss of our tobacco market to overseas producers. The Senate and Congress must see that it cannot simply legislate away an industry that contributes so much to our Nation's economy without causing tremendous repercussions which can be felt for years to come.

I cannot understand the logic of eliminating a program that has been practically self-supportive up until the last 2 or 3 years, and that contributes so much to the economy of the United States, when by doing so would only accomplish negative results.

I want to close by asking you to help lower the deficit, instead of raising it, by supporting the 1985 Tobacco Program Improvement Act. Thank you for this opportunity to testify before this committee on this very important matter.

The CHAIRMAN. Thank you.

John would you pull that microphone closer to you.

STATEMENT OF JOHN GALLOWAY, BUSINESSMAN, PARIS, KY

Mr. GALLOWAY. Thank you, Mr. Chairman, distinguished Senators.

My name is John Galloway, and I live in Paris, KY. I was raised on a farm in Bourbon County, in the heart of the Bluegrass. I own and operate a small insurance agency; 65 percent of the people I deal with are small farmers.

Bourbon County produced the largest crop of burley in the State in 1984, with gross receipts of $26 million, and is projected to gross $19 million in 1985. Bourbon County is just one of 120 counties in this State that produce burley tobacco.

It is quite obvious that the cuts in the tobacco program are a farm problem, but perhaps even more significant are a small community problem and a small businessman problem. Cuts will cause the economies of other small cities across this State to deteriorate, and in many other States. It will deal a death blow to many small farmers and small businessmen in Bourbon County. As past president of the chamber of commerce, we have been aware of these problems for the past few years.

It has been estimated in our community that money changes hands four to nine times in our county. People who work in the community are more likely to do business with their friends and neighbors within that community. This is the only way a small rural area can survive.

The insurance business and other service organizations will be the first to go under. Other small businesses will falter and, in turn, create a domino effect, businesses such as hardware stores, appliance stores, corner drug stores, clothing stores, shoe stores, auto dealerships, just to name a few. Without price supports and quota systems, the dominoes will continue to fall.

You may be able to take $26 million out of New York City and not feel the effects, but you take $26 million out of Bourbon County, KY, and the effects will surely be felt by every person living there. Items such as life and health insurance, disability insurance, farm owners insurance, and physical damage coverage on vehicles, which are necessity items for my business, will become luxury items for the farmer. The result is that everyone loses.

The first obligation of the United States is to its citizens. By not providing price supports and import restrictions, the Government is really driving the small farmer, the small businessman to the poorhouse. I never would have thought it possible that what our country imports would have such an effect on a small businessman in Bourbon County as the importing of foreign tobacco. As I see it, the United States must limit its tobacco imports in order to secure the existence of the small businessman.

We people in Kentucky like where we live, we like what we do. Tobacco is the major source of money. Small communities, like Paris and Bourbon County, KY, are dependent on it. The same Government who continually bails out large communities, like New York City, and large corporations, like Chrysler, seems to be totally unaware, or chooses to ignore the small farmers and small businessman's problems. Without price supports, quotas and import restrictions on tobacco, an entire way of life will surely die. It is my hope that you will not let this happen.

I would like to thank each of you for giving me the opportunity to State my views on this very vital issue.

Senator **Ford**. Thank you.

Mr. Chairman, there is a very, important point here that I think we have lost, with all the press that has been generated on S. 1418, and that's the importance that these four gentlemen have brought to this hearing this morning.

So as we will not lose sight of the importance of what S. 1418 would do, we talk about saving the tobacco program. Well, saving the tobacco program does what? And you begin to listen down this line, and it tells you what the tobacco program will save. It will save the small business. When you get out there, it will save the bankers. I'm not in the banking business, but I can understand that when you loan money at $1,000 an acre with a loan program, and all of a sudden it's worth $600, you call that loan and take your loss, and that has a ripple effect on all the banks.

We have the chamber of commerce here on the State level that's made a statement that I think is very dramatic. Then we look at John who has been president of the local chamber and is a local businessman and understands it.

Mr. Chairman, I believe we have brought together the points today of how important the tobacco program is. We find those who will want to put the tobacco program out of business, then you're out of business, and I think we have the underlying problem, underlying reason for us attempting to hold onto this.

I listened to Floyd as he talked about small bankers—$9 million doesn't sound like much, does it, in this town, but you take $9 million out of Morgan County and Morgan County is in deep trouble. You talk about the increase of 12 percent unemployment on top of 14 percent, and you have 25 to 30 percent unemployment in a county.

So Mr. Chairman, I'm not going to ask these gentlemen any questions; I think they laid it out awful plain, and talked like Kentuckians, told it like it is, and I'm proud that they are here and took the time to take interest—and, as they said, the problem, they are not here to talk about legislation—that's our problem, they send us up here to try and work those things out. They have related to us what the problem is, as they see it, as it relates to the economy and constituency, and I'm proud of them; I'm pleased that they are here to support the grower.

The CHAIRMAN. As they say in the Baptist Church, Amen, Brother.

Senator Ford.

Senator FORD. Being a Baptist won't keep you from sinning, it just keeps you from enjoying it.

The CHAIRMAN. Where I come from, some of them enjoy it.

Mitch.

Senator MCCONNELL. Thank you, Mr. Chairman.

I want to commend all these Kentuckians for coming here, and putting this whole issue in perspective. The issue is, who grows this legal crop, who grows it? That's the issue, not whether it's going to be smoked; the issue is who grows it.

I think it is an outrage, an absolute outrage for the Federal Government to even consider doing this to Kentucky, legislatively pose a depression to Kentucky if this bill is not passed. That's the message that we have got to get across to our colleagues and to others in the country: Is the Federal Government, through its own failure to act, going to mandate a depression in Kentucky.

It's gross unfair, it ought not to be done, and that's why we spent hours and hours and hours on this problem over the last 8 months. That's why we have bipartisan cooperation. That's the message.

We may have to call on you fellows again, as this issue unfolds, to send that message hard and straight to those of us in this chamber, to our colleagues who simply refuse to understand the issue. That's the issue; killing the tobacco program will do nothing to reduce cigarette consumption in America or in the world. It will simply destroy Kentucky, and I expect it won't do North Carolina any good either.

We want to thank all of you for coming and making these salient points here this morning. No one could have said it better than you did. Thank you.

The CHAIRMAN. Thank you very much.

Thank you, gentlemen.

Our final witness this afternoon is Matthew L. Myers, staff director of Coalition on Smoking OR Health, Washington, DC.

Do not be concerned; we have tight security around here.

STATEMENT OF MATTHEW L. MYERS, STAFF DIRECTOR, COALITION ON SMOKING OR HEALTH

Mr. MYERS. I was going to start out by saying I wondered why I felt like a Christian who had just entered the Roman Coliseum and was facing the lions.

Senator FORD. You don't have enough blood for this crowd.

Mr. MYERS. Exactly because of who I represent, it is that I thank you the most for permitting us to testify.[1]

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[1] See p. 91 for the prepared statement of Mr. Myers.

The CHAIRMAN. We are delighted to have you, really, in all seriousness.

Mr. MYERS. There is no question that we bring to you this morning a totally different perspective, one with which we know, for good reason, that you are going to disagree, but one which we feel also represents the views of many Americans, and many members of the health community. To the extent that we can all understand each other better we may discover that there may well be avenues and methods by which we can work together on areas of future and mutual interests.

As a matter of fact, one of the reasons I am pleased to be here this afternoon is that I think I can come to this group with a message that is not totally negative, but with a message which does offer some positive hope in some areas for working in ways that are not antagonistic to each other.

I think, first, it's important to understand our view. From its inception, the Coalition on Smoking OR Health has expressed its strong opposition to what we perceive to be the inconsistency of the Federal Government's policies which, on the one hand, acknowledge that cigarette smoking is the single most preventable cause of death in the United States, but, on the other hand, provide Federal assistance and tax dollars to support the growth of tobacco.

From the viewpoint of the health community—and this is important—it is the expenditure of general taxpayers' dollars to support the growth of a crop which has been condemned by every Surgeon General since 1964 as a major health hazard which has made the tobacco price support program so politically controversial and, in our view, so vulnerable.

The tobacco price support program must be looked at in relationship to the context of the health hazards of smoking. Last year alone, over 350,000 people in the United States died from cigarette smoking. That averages out to about one American every 86 seconds.

I have heard the question repeatedly this morning—and before you all have the opportunity to ask—I think it is important to understand: we understand, as you know, that the existence of the tobacco price support program doesn't mean that Americans will or will not smoke, nor would its absence mean that no Americans would or would not smoke.

But from our standpoint, especially in a period of time of limited governmental resources, and you folks are more familiar with that than I am, the allocation of substantial Federal tax dollars for this purpose, when we are unable to get sufficient funds to provide health education to the American public, to provide scientific research on the diseases associated with cigarette smoking, in our minds, simply can't be justified.

We are also concerned about another issue related to the dollar issue, and that goes to the message that we believe that Federal funding of the tobacco price support program sends to the American public in terms of the Federal Government's endorsement of the use of cigarettes.

Having said that—and I think that is important to understand, even though you don't agree—we also agree with what you have been saying this morning: as long as Americans are going to smoke, we would rather see them smoke American cigarettes, and are not here today in any way, shape, or form to say to you, "Our goal is to prevent the American tobacco farmer from growing a legal crop as long as it is legal to sell that crop in this country." It is our ultimate goal, of course, to hope that Americans, when they become fully educated about the health hazards of smoking, will, on their own, make what we think is a wise health decision and gradually decrease the use of this product.

Also, as we have said repeatedly in past years, while we have opposed legislative efforts to continue the general expenditure of Federal taxpayer dollars to support the growth of tobacco, we in the health community are concerned about the economic welfare of your constituents, about tobacco farmers.

We are prepared to work with you in ways to carefully consider how we can both move in ways which represent both responsible health policy and responsible farm policy, so that those two goals, as they relate to the tobacco farmer, need not be inconsistent.

The tobacco farmer is not the enemy of the health community; our enemies are cigarettes and the health hazards posed by cigarettes.

In fact, for the last 5 years, and for the foreseeable future, the major enemy of the American tobacco farmer has been the major multinational cigarette manufacturers, who have elected to increase dramatically their use of foreign-grown tobacco, much of which is raised—as Bob Froman of the U.S. Burley Producers Association said this morning—without the pesticide and other health restrictions imposed upon the American tobacco farmer. That's not fair, and we offer to join with you in working toward the resolution of that problem.

Now, our concern for the welfare of the tobacco farmer goes beyond rhetoric, it's real. As we acknowledged last week in a joint hearing of the Tobacco and Peanut Subcommittee of the House Agriculture Committee, and the Subcommittee on Select Revenue Measures of the House Ways and Means Committee, the Coalition is prepared not to oppose innovative approaches which help tobacco farmers resolve the current crisis, and which provide them with some protection against the unfair increased reliance by the major cigarette manufacturers on foreign-grown tobacco.

We don't have all the solutions; we don't pretend to be experts in that field; however, H.R. 2600, as introduced in the House of Representatives by Congressman Charlie Rose, and its companion bill introduced in the Senate by Senator Al Gore, and S. 67, introduced by Senator Gore and cosponsored by Senator Ford——

Senator **Ford**. What?

Mr. **Myers**. S. 67, the foreign pesticide bill, sir.

Senator **Ford**. Oh. You were reading too fast for me, perhaps.

Mr. **Myers**. I may be willing to live dangerously, but not that dangerously.

Senator **Ford**. Thank you very much.

Mr. **Myers**. Introducing both pieces of legislation, in our view, create one possible opportunity to address both our concerns and your very legitimate concerns for your constituents.

However, we are here this morning to announce our strong opposition to this particular piece of legislation, as drafted. First, we are deeply concerned about what we perceive to be the massive costs of the bailout envisioned by S. 1418.

You need not take my word for it—witness after witness from the tobacco family who testified at the joint hearing in the House last week acknowledged that S. 1418 carried a price tag for the American taxpayer in excess of $1 billion.

Contrary to what I perceive as the questions I've heard this morning, there is an alternative between no action and S. 1418. The bills to which I referred earlier offer one opportunity.

I do think, with creative work on this issue, we can avoid the Hobbesian choice, Senator Helms, to which you referred earlier.

The Congress of the United States spoke clearly in 1982, I think, when it enacted the No Net Cost Tobacco Act that, from that date on, the tobacco price support program should operate at no net cost to the American taxpayer.

Our view is that S. 1418 reneges on that promise.

Second, as reported earlier this morning by the representatives of the National Grange and the North Carolina Farm Bureau, this particular legislation fails to address the foremost problem now facing the American tobacco farmer: imported tobacco.

We all know that over the past several years the number of tobacco farmers and the size of the quota has been decreased dramatically, and we all know the reason: it's imported tobacco, it's not health education.

We don't believe this bill seriously addresses that issue. According to this bill, what the American tobacco farmer will be permitted to grow will depend almost entirely on what the manufacturers are willing to buy. If the manufacturers decide to buy more foreign tobacco, they will simply order less American tobacco, and the American tobacco farmers will be required to grow less.

The so-called "shared assessment" is no defense against that, because if they order less and they buy what they order, there will be no shared assessment, and yet the American tobacco farmer will be hurt.

An old friend of mine used to say, in a slightly different context, but I think it is true here, "He who relies on cigarette manufacturers' good faith for their livelihood and for a base of support ultimately, is likely to sink out of sight."

In conclusion, for several years the Coalition on Smoking OR Health has been saying that the issue, as we see it—and I understand that you see it differently—is not whether Federal funding for the tobacco price support program should be ended, but how best can this task be accomplished fairly, without unduly harming the economic welfare of the tobacco farmer and without unduly burdening the American taxpayer.

In 1982, it appeared that Congress had taken a step in the right direction. We fear that S. 1418 is a step in the wrong direction.

At a time of staggering budget deficits, debates about whether senior citizens must endure a Social Security cost of living freeze, debates about whether we have sufficient funds to provide for our own defense, the American taxpayer cannot afford the price tag imposed by this legislation.

If this legislation passes, there will be two losers, in our view: the taxpayer and the farmer. One group will receive a windfall—and I would like to address that question in a moment, Senator Ford—and we perceive that to be the cigarette manufacturer.

We urge you not to disband your effort to find a solution, and not to face the Hobbesian choice, to which you referred, but to search for alternate solutions that address the very real and very serious problems that you have raised this morning.

We are convinced that alternatives do exist to address these problems in a manner consistent with your goals and with the overall health goals of the American public.

Before I said that I would be happy to answer any questions, and I will be. You've actually asked a number of questions that I think were directed toward me already this morning, and let me briefly address them, and then you can followthrough in any way you see fit.

One of the questions is, of course, "What is the relationship to health?" and I think I have at least laid out our perception of that, in terms of the choice of priorities of how you use Federal dollars in a time of limited resources.

The second question is whether or not this bill provides a windfall or if this bill is unduly oriented toward the manufacturer. Let me briefly address that.

First, whether or not the manufacturers would otherwise be buying the tobacco in surplus, there is no question that the tobacco they buy at a 90-percent discount will be tobacco they will use. There's no way to get around that that's a fire sale and a fire sale from which their profits, profits which haven't failed while the American tobacco farmer has, are going to jump enormously.

Second, they will be the immediate beneficiary of those reduced price supports. The reality is that even at $1.70 and a 25-cent or 30-cent assessment, the American tobacco farmer is going to get at least as much this year as he would under this legislation, and I think, in the future, will have better control over what that quota is going to be.

Changes are needed, but not changes that turn this program over to the tobacco manufacturers. And I think that that is the third and most important issue. The cigarette manufacturers are going to be able to control the politically, vulnerable and controversial issue of tobacco imports and surpluses by simply deciding how much tobacco they alone want to buy, and the American tobacco farmer is going to be completely, totally, and absolutely at their mercy, with no weapons.

I think that those reasons should raise concern among each of you who I know have as your first and foremost interest the small family farmer.

I would be happy to answer any questions.

The **Chairman**. Mitch.

Senator **McConnell**. Did I hear you say that you supported the Rose measure for a 2-cent excise tax for growers?

Mr. **Myers**. We publicly announced that we would not oppose that measure. We also offered to Mr. Rose and to Mr. Hopkins at that hearing that to the extent that they needed to deal with other problems in the Tobacco Price Support Program and were willing to consider ways that wouldn't impact on the General Treasury, that we would be willing to work with them on that. And that is an offer that we extend to you this morning.

Senator McCONNELL. If you are truly concerned about the small grower, let's play out the following scenario: If no action is taken, the growers next year will vote out the program which will, of course, as you know, cost the Government a good deal more—if you are concerned about Government dollars at this time of high deficits—than going forward, what are those people going to do?

Mr. MYERS. If we were coming to you today and saying we were opposing everything that has been proposed, that would be an issue that I think would be—and that is the issue that you have been addressing all morning. What I'm trying to say to you is, I don't think that's the issue that any of us want or that you have to face.

That's the reason, after careful consideration, that we took a stand, which has been criticized in the health community, frankly, and that is to announce our nonopposition to Mr. Rose's and Mr. Gore's bill, and our willingness to work with Members of tobacco States who are concerned about this—that is an offer we put out today.

We are not here advocating that you take or not take any action which will bring dispair and insolvency to the tobacco farmers. What we are advocating, and which we think in the long run will benefit tobacco farmers, is that we find a mechanism to do so that does not subject tobacco to the type of controversy that it is subject to every time the tobacco price support program comes up and is likely to come up. There are ways to do that, and we think Mr. Rose's bill, while not perfect, may be one approach, and there are probably other ways, to do so that will remove that objectionable piece of the Federal Government's role that gets the health community up in arms, and gets so many Members of your Senate, who rail against it, as you noted this morning, up in arms.

We do think there are approaches that will work, but we don't think that that is a choice that you have to face.

Senator McCONNELL. Well, with all due respect, you didn't answer my question. The hypothetical was: We do nothing, and as a result of doing nothing, the growers do what many predicted they would do here this morning, which is to vote the program out in February of 1986; what do they do then for a living?

Mr. MYERS. One of the things we suggested at Mr. Rose's hearings, and one of the things we would suggest to you this morning, although it may begin—you talked about the research done at the University of Kentucky, one of the things that we suggested to Mr. Rose that he consider in his legislation, and we urge you to consider, is that we suggested, through the excise tax—and there may be another method—that we look for a fund to provide tobacco farmers, especially in those areas where it's easy to make a transition, but even more importantly in areas where it's not, with assistance in making transition, funding during the transition period, funding to provide equipment changes; recognizing that tobacco is a very profitable crop, that won't be an easy transition.

I am also suggesting to you today that's not the position you place the farmer in, and that's important—that is not the position we have taken this morning, that no one should address these problems; we have just suggested that you ought to do it in ways different than S. 1418.

Senator McConnell. Well, in terms of cost to the Government, if that is one of your concerns, as you indicated it was, it would be enormous to try to—you take colleges of agriculture for years, as I indicated before, looked at alternate crops. About the only thing that they have been able to come up with that could even be grown on the tiny little allotments that we have in the hills and mountains of Kentucky are vegetables which are about one-tenth as profitable and very difficult to market.

I say, with all due respect, that while you say you are interested in the grower, I don't see any indication of that. We are quite concerned about it—and all these other alternatives are going to cost the Government more than S. 1418.

Mr. Myers. Let me just discuss that briefly. The notion for funding for transition money will cost the Government a lot of money; in our view, in the long run, it will save the Government money, not only in terms of potential health care costs; that is, I think, as the Government comes less addicted to smoking itself, and in terms of putting farmers on the trail of a crop which is not going to be subject to the type of criticism which this crop is going to be for as long as we can all see, at least.

The Chairman. Wendell.

Senator Ford. Matt, I know you may have yielded a little bit in saying that you would support an excise tax, but didn't you support the 8-cent increase, too?

Mr. Myers. Yes, sir.

Senator Ford. You would like to keep that on, wouldn't you?

Mr. Myers. There is no question that we probably have a different position on the health issue——

Senator Ford. It's not a health issue; we're talking about the economy, we're talking about taxes. You were talking about the cost to the taxpayers. Let's just kind of stay in that arena without getting into——

Mr. Myers. Can I explain to you why we support the excise tax, because it is a health issue in a substantial part, from our viewpoint.

Senator Ford. The more tax you put on it, the less will be smoked.

Mr. Myers. Particularly among teenagers. I did some checking in cancer rates and heart disease rates in Kentucky, and they are particularly high. The data does show that for a 10-percent increase in the price of cigarettes, roughly 14 percent of teenagers will decide not to smoke. And for them, both the economic gain and the health gain, in the long run, from our perspective, is very, very substantial, so that as we look at how you do taxing policies, that seems to be an appropriate issue for us. I understand you don't agree.

Senator Ford. Well, we are looking at the economic factors, and you want to help the farmers; how much research have you done trying to find new crops to substitute for 2 percent of the land used in Kentucky when we have 98 percent of the land left?

Mr. Myers. Well, our proposal——

Senator Ford. No, no, no. Now, Matt, level with me now. How much research has the coalition done, what advice can you give us today, what crops can you say will substitute for tobacco, as it relates to economic well-being of Kentucky?

Mr. MYERS. Mr. Ford, as you well know, we don't consider ourselves to be an expert in that area. We have reviewed the literature; we think there are some answers. We think the problem is very difficult.

Senator FORD. You're just like Will Rogers—when he's asked to get rid of the German U-boats off our Atlantic shore, he said, "Drain the ocean." They asked him how to do that; he said, "I don't know, I'm just an idea man." So you're a good idea man, but I don't see any substance, except you want to damage the tobacco program.

Let me ask you, under the plan in the House that you recommended that you mentioned, which I am not fully familiar with, who would buy the tobacco under Mr. Rose's plan from the farmer?

Mr. MYERS. Mr. Rose's plan does not address who would buy——

Senator FORD. Well, who would buy it then, if you go to 2 cents, who is going to buy the tobacco?

Mr. MYERS. The same people who have been buying it historically.

Senator FORD. OK, that's fine. Why do you say that?

Mr. MYERS. Frankly, Mr. Rose's bill doesn't address who's going to buy the tobacco; I don't have any reason to believe that patterns will change dramatically.

I also have to add, I don't think there is any Congressman in the U.S. Congress who cares more about the tobacco farmer than Congressman Rose. When we addressed his bill, we assumed that he was going to look out for the tobacco farmer in doing it. We think that the people who lined up behind his bill demonstrate that, at the very least, there is a legitimate difference of opinion among members who truly care about tobacco farmers.

As to whether that is a better vehicle or this is a better vehicle, all we have said is not which, quote, "is a better vehicle" purely for the tobacco farmer, but which most closely addresses the concerns of the health community with the tobacco program.

Senator FORD. Well, you have shown a great deal of concern for the grower, and that's fine; but you are advocating additional costs which will be passed on to the consumer which will reduce consumption, you hope; and by reducing consumption, you give no assurance, in that piece of legislation, that anybody will buy tobacco from the grower.

In our piece of legislation, at least we've had the art of compromise that has been here this morning, and I think you and I understand the art of compromise very well, and we've dealt in that before.

You have no assurance that the grower, the American citizen who is the grower of tobacco, that the manufacturers will buy from them. What will happen under the Rose bill, the companies are going to look for lower costs because you are increasing their costs and reducing their consumption, so they are going to be looking for other sources, and if they get more imported tobacco thats cheap, then that's what they will do under the Rose bill, and you are damaging the American farmer and not stopping the use of cigarettes one iota by adding 2 cents to the pack of cigarettes.

Mr. MYERS. Could I address that issue, sir?

Senator FORD. Sure. I want you to.

Mr. MYERS. The 2 cents wasn't our idea.

Senator FORD. No, but you support it.

Mr. MYERS. We announced that we didn't oppose it. We don't perceive that the 2 cents is a health policy to increase or decrease consumption. We do see it as a method for funding the tobacco price support program in a manner that we don't find objectionable.

Second, as I understand that legislation, that if cigarette manufacturers purchase increased percentages of imported tobacco, stocks will go up, and the tax will go up—something we know the cigarette companies don't want desperately, so that there is an economic incentive in there.

Third, we've supported S. 67, legislation you have sponsored which, in part, addresses the import of tobacco, and we have committed, both to you, Senator Ford, and to Congressman Rose, that we will work with you, if you so desire, to address the importation tobacco issue, because we are concerned, from a health standpoint, in the same way that you are concerned from an economic standpoint.

So to the extent to which there are flaws in the other approach, which I acknowledge, what we are here to say to you this morning, Senator, is that we are willing to work with you on some of those issues.

Our primary concern is health, and our primary concern relates to those issues. There is no question about that.

Senator FORD. Let me ask you this: What is the rest of your wish list that you presented, I believe, to Congressman Rose's hearing, that this 2 cents would pay for? Didn't you have a wish list at that hearing?

Mr. MYERS. We made a number of what we thought were realistic suggestions for amendments to his legislation. Let me paraphrase them and, if you would like, I would be happy to provide the committee with a full copy of my testimony.

Senator FORD. How many items—they were all cost factors, weren't they, increased costs that would come out of that 2 cents?

Mr. MYERS. No. One of them was a statement of purpose, and three of them were related to cost issues—I'm not sure that they would necessarily all involve increased costs.

Senator FORD. But they were cost issues, and that would be included in the 2 cents; and if we got into that, then, with the 2 cents, we would probably have to go to 4 or to 6.

Mr. MYERS. Of course, you realize that one of those cost issues is one that the farmer controls himself by deciding how many farmers want to use that transition money. If farmers didn't want to use the transition money, it wouldn't cost the taxpayer much.

Senator FORD. Yes; but what is the transition to? One more question and—I think we can get into a good argument sometime, but Mr. Chairman, I don't want to take up any more time.

Looking at Matt's testimony, he apparently doesn't understand the program at all, because he says that the burley will be discounted at 90 percent, and no burley in the pool will be discounted at 90 percent; it will be bought at cost.

The only thing we're trying to do is to find some way to get rid of the 1983 crop that nobody wants. But burley is being sold at cost, it's not being sold at a 90-percent discount.

And I hope that you, when you begin to talk about this bill, instead of making all-inclusive statements, that you be sure that you begin your statements with pre-1982, post-1982, that you begin to look at the program itself.

This is what has hurt our effort to try to do something in good faith, is because statements like this distorts, and they read very well, and you get good press on it. But when you make statements that "all," you begin all-inclusive, and that's wrong, Matt, and I wish you would clarify that.

Mr. MYERS. Let me do that for you, because I think you have misread the intent and I think what the statement says——

Senator FORD. Well, intent is one thing, and I can't read into your heart when I read this, and I can't read into your mind when I read this; all I can do is know what you say, and you signed it.

Mr. MYERS. Fortunately, you don't need to, because it doesn't say that, sir. What it does say is that the American taxpayer will lose certain sums of money from Flue-cured, we didn't say the source. Of course, that is from the discount. We have also said that the American taxpayer will lose certain sums of money in the burley, as you yourself have acknowledged this morning, that there is a provision in this legislation for burley, for the 1983 crop, for the American taxpayer to pick up whatever the deficit is, after the weather-damaged 1983 crop is sold on the open market. There is no dispute, from what I can tell, that there will be some; there are widely varying estimates of how much that figure will be.

Our testimony is not inconsistent with what I think is an accurate understanding of the position.

Senator FORD. Well, I don't want to get into it. Your insinuation here is wrong, and I want that insinuation cleared up. I want that as a part of the record, and we can go back to my statement where it does that, and no burley has been discounted at 90 percent.

Mr. MYERS. I have not said that; I didn't mean to imply that.

Senator FORD. When you say, "tobacco," you just say, "tobacco," and tobacco is tobacco here, and you begin to do some things that I think are somewhat—it reminds me of—it's one of my Yellow Creek stories, Mr. Chairman, and we've taken up too much time already. I'll just save that for another occasion.

The CHAIRMAN. But I want to hear it.

Mr. MYERS. I should say, Senator Ford, that we can debate that one issue; we may be able to debate a $100 million either way. As you yourself acknowledged this morning—and justify it in your own way—this legislation, in conjunction with the administrative plan that we are talking about, is going to cost substantial amounts of money. It will come from different sources, from Flue-cured and burley—we understand that—it is still there.

Your position this morning was that if faced with the Hobbesian choice of S. 1418 versus nothing, the taxpayer is going to pay it anyway; our position this afternoon is that there are alternatives by which the nonsmoking taxpayer, at least, need not.

The CHAIRMAN. How are you going to do that?

Mr. **Myers**. I think that Mr. Rose's bill is a step in the right direction. I think Mr. Rose, during the hearings the other day suggested that he was willing to take amendments, not from the health community, but from the tobacco community to address some of the other problems.

I said, during my testimony this morning, that we throw those proposals out not as, quote, "the solutions," but as indications, on our part, that we are willing to work toward solutions that don't affect the general taxpayer.

The **Chairman**. Mr. Myers, I want to be as gentle with you as I can, but I have seldom seen anybody more confused about a piece of legislation than you appear to be today. You have made various statements, but you still haven't told me how adding 2 cents of designated tax is going to eliminate the problem.

In the first place, Congress is not about to start in this business of designated taxes, and you know that and Charlie Rose knows that, so that's a bunch of blue smoke and mirrors.

Now, tell me, sir, in just words of one syllable, how you are going to eliminate the overriding problem which is the surplus in Stabilization. Now don't tell me what you intend and so forth, just tell me how you're going to do it.

Mr. **Myers**. Let me do it in one-syllable words, but with two points. First, the proposal to which we are all referring was not our proposal; what we have simply done is say that it is a proposal put forth by what we perceive to be credible tobacco interests to address the problem, as they perceive them; and what we have said is that Congressman Rose's proposal is a solution which we, the health community, wouldn't oppose. That's important, I think.

Second, as I understand this legislation, the particular bill which we are talking about, H.R. 2600—I'm not sure what its Senate number is—that it has some built-in incentives against imports, and that Mr. Rose has indicated his desire to strengthen it in that respect.

I am not here to tell you that H.R. 2600 is a total solution to any problem; what I am here to tell you is simply that we in the health community are willing to listen to solutions that address your legitimate problems in ways that don't increase the burden on the General Treasury. That was one reason we supported S. 67 concerning pesticides. It appears to be a step in the right direction. It addresses both health issues and economic issues.

We are sure that in your infinite wisdom that there are other solutions. As Senator Ford says, we have helped lay out what our concerns and criteria are; we trust that you have the wisdom, as you have so often in the past, to come with solutions that meet all those concerns.

The **Chairman**. See, you're not giving an answer, you're not giving a solution, you go through the litany of what you said before.

Now, just one more time, watch my lips, tell me how are you going to take the overload in Stabilization out? You tell me there are solutions and surely, in Members of the Senate and so forth and so on. This is what we have been trying to do for a year, Mr. Myers. Now, if you come in in the bottom of the ninth inning and say, "Oh, you can't do that," what you are doing—if you will forgive me for an anecdote, our old Irish friend——

Senator FORD. If it's good, I'll write it down.

The CHAIRMAN. I thought it was good when the other fellows told it.

It's about the circus performer—and Matt is trying to put the whole tobacco industry in the role of the circus performer who went to an agent one time and said, "I can jump off a 90-foot tower into a wet washcloth." The other fellow said, "Do it." So he climbed up and got on the platform and jumped off and hit the wet washcloth and the agent went over and said, "That's the greatest act I ever saw; let's sign you up." He said, "The hell with it, I broke my damn neck."

Now, that's what you're saying to the tobacco industry, and it's easy enough, because you won't be out of a job. You won't be a community banker who's going into a tailspin.

This is a problem—we've got so many people who claim to have instant, simple solutions—and in good faith. I don't question your good faith, but you haven't really answered the question that you've been sitting on.

Mr. MYERS. Let me answer it briefly, and I will try—it may be no more satisfactory to you, but at least I will have jumped.

First, the problem with your surplus is its economic impact on your farmer. As I understand Mr. Rose's intent, and his 16 or 17 tobacco member sponsors, the intent is to remove that economic burden from the farmer. They don't say that their bill will cause the surplus to disappear overnight; what they will say is that it will remove the burden of that surplus, the economic burden of that surplus from the family farmer.

Apparently, some members of the tobacco community agreed, because the North Carolina Farm Bureau testified in favor of it, the Tennessee Farm Bureau testified in favor of it, the National Grange testified in favor of it; so that there is at least room for reasonable people to differ about that issue.

Second, you have twice, in response to my answer, referred to us as either Johnny come lately, or whatever you want to call a last-minute solution. I gather that the Members from tobacco States who have worked on the legislation to which we announced that we weren't opposed, did not do it overnight, they worked on it for many months, in light of their view of what the best alternative for the overall tobacco farmer is.

I understand that you may disagree, but nonetheless, I think that H.R. 2600, too, was legislation that was drafted with the sort of care and concern to which I am sure you did with this one, as evidenced by the detail in it.

The CHAIRMAN. Well, I know we can agree to disagree agreeably, but the point is that many of the same people who were there are here; what they want is a solution.

Unanswered, I suppose, is the question of what happens to the overload in Stabilization. But thank you very much——

Senator FORD. Let me ask you one question before you go, how much does the 2 cents bring in? Did you get that figure?

Mr. **Myers**. Mr. Rose quoted a figure, which I could refer you to the record for—off the top of my head, I would have to fish for it. I would be happy to give it to you.

Senator **Ford**. Is it $500 million?

Mr. **Mackey**. $550 million.

Senator **Ford**. $550 million; how much would we loan in Kentucky in the 1985 crop, if we had 200 million pounds?

Mr. **Mackey**. $450 to $500 million.

Senator **Ford**. That is one State, 1 year wiped out the whole 2 cents.

Mr. **Myers**. That's based on the assumption, of course, that nobody buys your tobacco. I would hope that that doesn't take place.

The **Chairman**. That's based on what is normal.

Mr. **Myers**. But this is going to cover losses; this isn't going to cover everything else, it's going to cover the losses to the program. To the extent that the program operates with no loss, you don't have to worry about the tax.

Senator **Ford**. But the burley pool will by enjoying tobacco in just 1 year to use that money if our bill does not pass.

Mr. **Myers**. If one State goes belly up——

Senator **Ford**. No, it's not belly up. We will have 600 million pounds; we'll sell, and 200 million goes under loan, the 2 cents is all gone, one State, 1 year. What are you going to do about the rest of tobacco States? You want to raise the tax then, that's the next step.

Mr. **Myers**. I think I disagree with your numbers, sir.

The **Chairman**. Mitch, and then we will close out here.

Senator **McConnell**. Thank you, Mr. Chairman, and this is one final observation.

I suppose everybody in the room agrees with one thing, that as the price of cigarettes goes down, consumption goes up. You agree with that?

Mr. **Myers**. Yes.

Senator **McConnell**. With the elimination of the allotment system, which some have argued is not a very efficient way to produce low cost tobacco, I think one could reasonably anticipate the price of tobacco produced in some, arguably, more efficient way, would go down, the price of cigarettes would go down, and consumption would go up. I'm wondering why you are not here supporting the tobacco price support program.

Mr. **Myers**. Two answers for you, sir. First, economists differ as to whether or not the actual cost of tobacco, relative to the overall cost of the price of cigarettes is sufficiently large to impact on price one way or another.

Second, we, at least this morning, are here saying to you, we have a concern about the expenditure of general taxpayer dollars for this program, but we are willing to work with you to find alternate solutions that don't necessarily gut your ability to ensure that the American tobacco farmer has a stable environment in which to work.

The **Chairman**. Thank you, sir.

Mr. **Myers**. Senator Helms, thank you; it was a pleasure. Senator Ford——

Senator Ford. Even though I disagree with you, I respect you, and I thank you for coming.

The Chairman. We are including in the record two statements of Mr. G.B. Midden, president of the Council for Burley Tobacco; the statement of David E. Boswell, commissioner of the Kentucky Department of Agriculture; Stephen R. Hornback, president of the Burley Farmers Advisory Council, and a statement of the Georgia Farm Bureau Federation.[1]

We stand adjourned.

[Whereupon, at 1:35 p.m., the hearing adjourned, subject to call of the Chair.]

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[1] See pp. 94–99 for the above referred to statements.

APPENDIX

STATEMENT OF HON. ALAN J. DIXON
A U.S. SENATOR FROM ILLINOIS

Mr. Chairman, I am pleased to be here this morning to hear testimony regarding S. 1418, a bill which would amend the Agricultural Adjustment Act of 1938 and Agricultural Act of 1949 to improve the tobacco program.

I would like to thank all the witnesses for the extensive work they have done and for their excellent testimony. I appreciate having the benefit of their counsel.

Thank you, Mr. Chairman.

STATEMENT OF HON. WENDELL H. FORD
A U.S. SENATOR FROM KENTUCKY

I am sure you recall that the 1984 burley marketing season began last November with a cloud of uncertainty. Almost 380 million pounds of unsold burley tobacco--more than $750,000 worth--remained in the farmer-held pool inventories. So farmers were having to contribute nine cents for every pound of tobacco sold.

The recent agreement between growers and manufacturers can be traced to a "Nine Point Plan" which was agreed upon last December by tobacco growers' groups. It was developed following months of meetings among a group of burley farmers, the Council for Burley Tobacco, Kentucky Farm Bureau, and the Burley Tobacco Growers Cooperative Association, as well as others. Included in the "Nine Point Plan" was a rollback of price supports of two cents a pound for every one cent reduction in the No Net Cost Assessment. It also proposed a mechanism to allow input of the major manufacturers in determination of quota production to bring supply in line with demand.

The "Nine Point Plan" called for limiting importation of tobacco. The mechanism for accomplishing this would be Section 22 of the Agricultural Adjustment Act which would allow the President to limit imports. An International Trade Commission hearing was held on whether imports were interfering with the domestic tobacco market. Evidence was so strong that I urged the President to impose Section 22 limits without completion of the hearings.

The American Farm Bureau and the Kentucky Farm Bureau put forth a valiant effort in presenting our case. However, despite my testimony and that of other members of Congress, the bipartisan drive for import restrictions failed with the ITC deciding not to recommend imposition of Section 22 quotas.

The ITC's decision in January, coupled with the fact that over 210 million additional pounds of unsold leaf was placed under loan from the 1984 crop, clouded the future of the tobacco program. The total burley debt stood at over $1.5 billion, resulting in a No Net Cost assessment of 30 cents a pound and an additional 10 percent cut in production for 1985. It was the third consecutive year for such a reduction.

Also, in January, the Secretary of Agriculture announced plans to implement a market-oriented farm policy for all commodities. The plan called for a phase-out of the tobacco program's main features, quotas and allotments, and for a loan rate of 75 percent of the market average. It was clear to me that this was no program at all.

Faced with the possible loss of the program, as well as the burdensome pool stocks, Kentucky's farm leadership began explaining benefits of the "Nine Point Plan" to the major manufacturers. An agreement was reached with the R. J. Reynolds Tobacco Company which became known as "The Reynolds Plan".

All of the cigarette manufacturers were invited to attend open meetings between company officials and farm leadership. The meetings were chaired by Senate Staff members for three days over a three-week period. The final day was a 17 hour session in which an agreement was reached between both burley and flue-cured growers. The culmination of this agreement is encompassed by S. 1418, the bill which we are here to discuss today.

The agreement calls for the manufacturers to buy out existing pool stocks, eliminating the need for a 30 cent per pound assessment. In addition, the companies will share equally in any No Net Cost assessment that arises in the future. The companies also agreed, on an annual basis, to provide the Secretary their projected tobacco needs for the upcoming year. Their domestic tobacco needs would be added to the previous three-year average of exports to determine the marketing quota.

If the manufacturers do not purchase at least 90 percent of their projected purchases they will be fined a double assessment. The consequences of underprojections would be higher prices because a shortage would result. Likewise, if there were an overprojection the manufacturers would only be increasing the assessment for which they have a shared burden.

In return for these concessions by manufactureres, the growers agree to a price support average of $1.45 for burley, or three cents a pound less than would be called for in 1985 ($1.78 price support average less 30 cents a pound assessment equals $1.48). Future escalations in the price support average would be determined by one-third of a producer price index of production costs and two-thirds of 95 percent of the market average.

This plan contains a mechanism which should keep the No Net Cost assessment at a tolerable level. In addition, the market-oriented approach of the plan should help tobacco supporters in

Congress as we strive to protect the program from those who are constantly trying to abolish this essential element of Kentucky's economy.

This agreement also includes a mechanism for dealing effectively with the current tobacco import dilemma. I hope that--because companies will share in the No Net Cost--there is an incentive for them to voluntarily limit tobacco imports.

Kentucky's farm leaders are to be commended for their diligence in developing this plan. The future of the tobacco program six months ago was dismal indeed. There is hope now that--if we can pass this plan as legislation--stability and the hope of long-term growth can be restored to our tobacco market.

STATEMENT OF HON. JOHN P. EAST
A U.S. SENATOR FROM NORTH CAROLINA

Mr. Chairman, thank you for the opportunity to testify on behalf of thousands of small family farmers who have to devote up to 250 work hours to cultivate one acre of tobacco. With such a labor intensive agricultural commodity, it is no wonder that the average tobacco farm in the United States covers only 5 acres of land.

Thus you can see that the average tobacco farmer works many hours on his small acreage. He is assisted by his entire family. Tobacco is one of the few crops that can economically sustain a family on such small acreage. Tobacco is a tradition, a way of life, and it is central to the rural farm economy of many States.

To demonstrate the importance of tobacco to American agriculture, let me cite some impressive statistics. There are nearly 700,000 families directly engaged in the production of tobacco. Over 276,000 farms in the United States produce over 2,000,000,000 pounds of tobacco on about 1,000,000 acres. Each year, tobacco farm sales total over $3,500,000,000 which accounts for well over four percent of all crop sales. Tobacco is usually the sixth largest cash crop in the nation, behind corn, soybeans, wheat, hay, and cotton.

The bill we discuss today will permit this tradition to continue. S. 1418 is the culmination of months of negotiations between representatives of producer organizations and cigarette manufacturers. Once again, our tobacco farmers have willingly taken their share of cuts and reductions so that they can preserve their livelihood. Without this legislation, I fear, tobacco farmers could lose livelihood. Mr. Chairman, I urge the Senate to act expeditiously in passing S. 1418, the Tobacco Program Improvement Act of 1985.

STATEMENT OF HON. ERNEST F. HOLLINGS
A U.S. SENATOR FROM SOUTH CAROLINA

Mr. Chairman, thank you for this opportunity to voice my support for one of our most successful agricultural programs, the tobacco program. Since its inception, it has served as an effective method of stabilizing a volatile industry made up almost entirely of family farmers, and it has provided economic viability to places like rural South Carolina that had nowhere else to turn. From 1938 to 1982, 99.9 percent of all loans made under the auspices of the tobacco program have been repaid in full with interest. And this success, more so than in most programs, has been translated into economic vitality for communities all across the Southeast.

In South Carolina alone, tobacco is a $200 million industry that pumps money into the economy at every level, from the local school districts to the state general fund. But the people who generate this wealth are the real issue before us. In South Carolina there are 21,746 tobacco farmers and their average tobacco crops covers only 2.27 acres. They are the small family farmers, and they are everything they are cracked up to be: smart, hard working, the backbone of the community.

Without the tobacco program, however, the small tobacco farmers will become a thing of the past. We all agree it is time for a change. Subsidized imports and the overvalued dollar have created problems that must be dealt with immediately. That is why I have cosponsored the Tobacco Reform Act of 1985. This legislation responsibly addresses the needs of all the parties involved, and if it is not passed, the price will be paid not just by the tobacco farmer, but also by Main Street, and, ultimately, the taxpayer.

Mr. Chairman, we have a well reasoned piece of legislation that addresses the problems of the tobacco farmer comprehensively: it provides for the buyout of the surplus tobacco in Stabilization, it provides for a market sensitive support formula, and it provides a structure that will insure stability. Such a workable, responsible solution was not hit upon easily. There has been over a year of give and take and the final product is a finely balanced bill that has won approval from growers and manufacturers alike, and it should be passed promptly.

STATEMENT OF FRED G. BOND, GENERAL MANAGER
FLUE-CURED TOBACCO COOPERATIVE STABILIZATION CORPORATION

Mr. Chairman, I am Fred G. Bond, General Manager of Flue-Cured Tobacco Cooperative Stabilization Corporation. Stabilization, with headquarters in Raleigh, North Carolina, is the grower-owned Cooperative which administers the price support program for flue-cured tobacco under contractual agreement with the U.S. Department of Agriculture's Commodity Credit Corporation. Practically all individuals who share in the proceeds from the production and marketing of flue-cured tobacco, whether land owner, tenant, or share-grower, are members of the Cooperative. Under the contractual agreement with CCC, Stabilization makes loans to eligible flue-cured growers whose tobacco does not bring a minimum price established for each grade at the auction market. Funds to advance loans to growers are borrowed from CCC. The primary objective and purposes of Stabilization is to provide a stable and orderly market and assure the growers a reasonable return for their crop at the market place.

Subsequent to the auction, all growers' tobacco consigned to Stabilization for loan, is transported to processing facilities for reweighing, regrading, threshing, redrying, and packing into containers for shipment to storage. At the conclusion of each marketing season, selling prices are established for each grade. Price schedules, conditions of sale, and inventories are made available to all buyers of tobacco. As sales are consummated, all proceeds are immediately applied to repayment of funds borrowed from CCC. This process continues until all tobacco from any crop is sold; it may require several years to close out a crop pool.

Significant and major changes have been made in the tobacco program over the years. The most significant change--with the greatest impact--was the No Net Cost legislation passed by the Congress in July 1982 and modified again in 1983. This legislation was the only option tobacco growers had for continuing a tobacco program; the other option was no program at all. The effect of this legislation transferred the cost of the program to the grower, beginning with the 1982 crop. For 36 crops, 1946-1981, the price support program was operated on a non-recourse basis which meant that when a loan was made by Stabilization to any grower for tobacco delivered to Stabilization, such growers would not be financially responsible for repayment of the loan if the proceeds from sale of such tobacco were insufficient to repay the CCC all principal borrowed by Stabilization to make the loans initially, plus interest.

With the passage of the No Net Cost Tobacco legislation in 1982, flue-cured tobacco growers have paid an assessment on every pound of tobacco sold, beginning with the 1982 crop, to insure that the government would suffer no financial losses. In very simple terms, all funds borrowed from Commodity Credit Corporation, the lending agency of the Federal government, to pay growers for tobacco consigned to Stabilization at the auction market must be repaid in full, plus interest.

As previously stated, prior to 1982, all funds borrowed from CCC to pay growers for tobacco consigned to Stabilization were made available on a non-recourse basis; that is, if any crop pool was sold for less than the original amount borrowed, plus interest, the difference was absorbed by CCC. The authority for CCC to charge off such losses was authorized by the Agricultural Act of 1938 as amended. Charge-offs were not unexpected--or to put it another way, farm programs were not designed to make profits for the government. They were designed to assure growers the change for a fair monetary return for their commodity through an orderly marketing system. Expenditures were expected by the Congress in order to carry out farm programs, including tobacco.

Expenditures in connection with the price support program for tobacco were in the form of charge-offs as opposed to direct payments to producers of other commdities. Of course, Congress expected program costs or charge-offs to be kept at minimum levels.

Charge-offs on the flue-cured tobacco price support operations have been extremely low when compared to charge-offs or expenditures for other commodities. Charge-offs on those crop pools closed from 1946 through 1975 amounted to $196 million, including principal and interest. Nearly 50 percent of the charge-offs were a result of the 1955 and 1956 discount variety crops. At the same time, there were crop pools closed during the same period where all obligations to CCC were repaid plus profits of $67 million.

Over 4 billion pounds of growers' tobacco has been received, processed, stored, and sold from crop pools 1946 through 1975. Total funds borrowered to pay growers for this tobacco, plus all handling costs, amounted to $2.4 billion. These figures have been cited to show that flue-cured price support program charge-offs on all pools closed to date have been less than .5 percent of the total value of crops produced in the years 1946 through 1975.

Even though there will be larger charge-offs on crop pools from 1976 through 1981, the overall cost or charge-offs for price support operations is signficantly well below those expenditures for other commodity programs.

However, the good record for tobacco price support operations did not carry any weight in the Fall of 1981 when Congress adopted a resolution requiring tobacco growers to pay all costs of their program beginning with the 1982 crop (except administrative costs) if there was to be any program at all.

Beginning with the 1982 crop as provided by the No Net Cost law, grower assessments were established: 3 cents for 1982, 7 cents for 1983, and 7 cents for 1984. The assessment was paid by growers on every pound of tobacco sold at auction as well as non-auction. For the past 3 crop years, a total of $172 million has been paid in assessments. During the 3-year period, Stabilization purchased from growers over 600 million pounds of tobacco which failed to sell for at least one bid above the grade loan rate at the auction market. To purchase and handle this volume, which averaged over 20 percent of gross sales for the past 3 crops, Stabilization borrowed $1.2 billion. Under law, CCC will not absorb losses through charge-offs; therefore, any loss or charge-off must be paid from the assessments collected from growers. The amount of the assessment depends on how much tobacco growers sell or consign to Stabilization each year. The greater the volume of tobacco which Stabilization must purchase, coupled with the length of time tobacco remains in storage, and the interest charges that must be added, determines the amount of the assessment each year.

So, after 3 crops under the No Net law, Stabilization is faced with a principal and interest debt of $1.1 billion as of May 31, 1985. As tobacco is sold from No Net Cost pools, proceeds are immediately applied against the loan. Sales activity depends upon demand, price, and world supply of tobacco. For the past 3 years, demand has been flat or declining and at the same time there is an oversupply or surplus of tobacco worldwide. To further compound the problem of generating sales, the strength of the U.S. dollar has climbed to record levels which results in overseas buyers being forced to curtail purchases due to exchange rates between the dollar and local currencies. In addition, the federal excise tax on each package of cigarettes was increased from 8 cents to 16 cents. During the same period wholesale price of cigarettes increased to 10 percent. Consumption dropped 6 percent. Domestic manufacturers reduced purchases at the auction; as a result, Stabilization's receipts increased.

Even though such negative marketing conditions prevailed, Stabilization's Board of Directors has developed and made available to all buyers over the past 2 years a number of price reduction programs. The most recent price reduction program effective October 29, 1984, resulted in sales of 80 million pounds; however, there is still 800 million pounds in inventory, of which 536 million pounds, with a current financial obligation of $1.1 billion, are the No Net Cost inventories from the 1982, 1983, 1984 crops.

With interest accruing at levels up to $10 million per month which must be added to the base selling price of every grade every month, it is obvious that prices in a short time will exceed levels beyond which any buyer will pay. With these conditions prevailing, the Board of Directors recommended to the U.S. Secretary of Agriculture and the CCC an assessment of 25 cents per pound for the 1985 crop.

It is quite obvious that growers cannot afford to carry such a financial burden. Furthermore, I am of the opinion that no one involved in the No Net Cost legislation in 1982 envisioned or contemplated such a financial burden and responsibility being placed upon growers. There are the problems which already have been alluded to such as price support levels, adverse economic conditions, and loss of market share in the domestic and overseas market. These problems are being addressed and changes in the program have been proposed to solve the problems confronting tobacco growers.

Senate Bill 1418 has been introduced to establish a viable tobacco program for the future. This legislation provides for basic changes in the tobacco program regarding price support levels including adjustments in future years, determination of quotas, purchase requirements of buyers, sharing in assessments, purchase of old crop stocks, disaster crop designations, investment of tobacco inspection fees, plus an amendment regarding tax treatment of contributions and assessments. This bill has been a compromise effort by all segments of the tobacco industry.

Stabilization supports this legislation in concept, but has strong objections to any provisions that would use any assessment funds paid by flue-cured growers during the 1982 through 1984 crops of flue-cured tobacco that are in excess of amounts needed to offset losses of CCC with respect to any of the 1982 through 1984 crops of burley tobacco; and further, Stabilization would object to any price support formula that does not provide for reasonable and justifiable escalation.

Thank you, Mr. Chairman.

STATEMENT OF JAMES R. OLIVER, MASTER NORTH CAROLINA STATE GRANGE AND LEGISLATIVE REPRESENTATIVE ON TOBACCO ISSUES FOR THE NATIONAL GRANGE

Chairman Helms and Members of the Committee: I am Jim Oliver, a farmer, Master of the North Carolina State Grange, Officer of the National Grange, member of the Ag-Committee of the National Grange and the National Grange Legislative Representative on tobacco issues. Today, my statement will be for the National Grange which is composed of some 41 state Granges, representing both burely and flue-cured growers and the North Carolina State Grange.

We appreciate the opportunity to appear before this Committee to express our views on Senate Bill 1418 as introduced by Senator Helms and others on July 10, 1985.

At this time, I feel that I must clear the record on two issues. One, I must stress that there was not complete agreement as has been publicly stated many times in the news media on all issues in both the preliminary draft and the bill itself by all parties involved in the many hours of negotiations. Also, the Grange has not abandoned this bill as has also been stated in the news media from time to time. We do not agree with some of the specifics of the bill as written and, at this time, I would like to present our views on those sections that we do not agree.

Mr. Chairman, I have expressed our points of disagreement to you in a letter dated June 11, 1985, and since that time there have been several other changes for which we cannot agree.

At the final meeting of all parties involved in negotiations to draft S. 1418, there were two options given as to the procedure for establishment of future price supports. Option 1 which was favored by the manufacturers involved a price support based on 95 percent of average market price for three of the past five years with the high and low years excluded. The average market price would be reduced 30 cents for the 1981 through 1984 crops. A price floor of $1.40 for flue-cured and $1.45 for burley would be in effect for the 1986 through 1990 crops. Option 2, which received unanimous agreement from the producer groups, was an escalation clause for flue-cured and burley calculated in the following manner:

Fifty-percent weight given to the differences between the immediately preceding year's support level and the average market price of three of the five preceding years, with the high and low years excluded.

Fifty-percent weight given to an index of prices paid by tobacco farmers. The index which would include such items as seed, plant bed fumigation, plant bed fertilizer, plant bed pesticides, plant bed covers, lime fertilizer, field pesticide, fungicide and herbicide, gasoline, diesel fuel and lubricants, sucker spray, fuel oil (flue-cured), sticks, sheets, bale twine, labor and other items the tobacco farmer must purchase for production. The index of prices paid would not include any return for labor, land or lease costs. We feel assessments are legitimate costs and should be included.

The Secretary would be given authority to adjust the price support 65 to 100 percent of the increase or decrease of that formula.

Our support for Option 2 is based upon the protection, small as it is, for our producers against rising production costs and also an escalation clause would also encourage purchasers to buy on the warehouse floor rather than allowing it to go to stabilization stocks and purchase it later at the same price plus processing and storage charges.

In S. 1418 under Price Support Adjustments, Section 3, neither of the two options is included and a completely different formula, of which very little discussion was debated and no agreement was reached, is in place.

We are concerned with the method for the Determination of Marketing Quotas for flue-cured and burley tobacco in S. 1418. With no limitations on imports of flue-cured and burley tobacco, the domestic manufacturers under the provisions of S. 1418 could easily factor in amounts of imported tobacco and, thereby, reduce their intent to purchase and would be perfectly within the law. Over a period of a very few years, the American producers would be faced with further reductions in quota, thereby, forcing many small producers out of business because it would no longer be economical to produce such a small allotment. This will be further compounded with the elimination of lease and transfer at the end of 1986.

According to my calculations, under the provisions of S. 1418, our producers will be faced with at least a 15 percent reduction in quota for 1986. If stabilization stocks are greatly increased during the 1985 season, this reduction would be even greater--possibly as high as 22 percent. As you can readily see, many producers would be forced out of production of both flue-cured and burley tobacco.

Under Purchase Requirements Penalty of S. 1418, there is no penalty for purchasers that do not purchase 90 percent of the amount it submitted as it's level of intended purchase. Again, we had agreed during our negotiation sessions that if any one company purchases less than 90 percent of the amount it submitted as its level of intended purchase, such company would be required to pay to the independent third party an amount equal to twice the assessment that would have been incurred on such purchase deficit provided the effective quota had been reached in that year. We strongly feel that this penalty provision must be reinstated in the bill.

The section dealing with Review of Tobacco Grading System and Disaster Crop Designation of S. 1418 also causes some concern. After discussions with Stabilization Corporation's personnel, it appears adequate grades are already in the system to handle disaster crops.

I question the necessity of a Technical Committee under the provisions of this bill as we had agreed during our negotiation sessions that a Technical Committee would be appointed to work out the details of the implementation of the disaster crop designation prior to the introduction of legislation. S. 1418 requires the Secretary of Agriculture to appoint an Advisory Committee composed of producers of tobacco, purchasers of tobacco, persons involved in providing tobacco grading services and such others as the Secretary deems appropriate. The Advisory Committee shall meet regularly to evaluate and make recommendations to the Secretary with respect to among other things the operaton of tobacco grading system, criteria for designating disaster crops and the establishment of disaster grades. I am very concerned that this committee and the duties given it would tend to be an Advisory Committee to the Secretary to make recommendations not only on the grading systems and disaster crops but also with the words "among other things" included, it appears to me that this group would have very broad powers. At our last meeting of all interested parties on July 10, 1985, a so-called Technical Committee was appointed. If this is the Committee to be appointed by the Secretary under the provisions of S. 1418, I am quite concerned that it had no representation from domestic manufacturers nor the Grange. I feel that a Committee of this importance should have representatives from both. I also feel that the words "among other things" should be stricken from the bill as it relates to duties of this committee.

It is my understanding that the section of the preliminary draft of S. 1418 dealing with Tax Treatment of contributions to no-net costs tobacco fund or account was removed and placed under an amendment to S. 1418. I would hope that this amendment would be supported strongly by all parties involved with attempted passage of S. 1418 in order that our producers would be relieved of the tax burden as soon as possible.

I am very much concerned over the possibility of an amendment to S. 1418 that would allow use of flue-cured assessments paid by flue-cured tobacco producers, issued stock certificates by Flue-Cured Stabilization Corporation and subject to tax by both State and Federal agencies. A section dealing with this very subject was removed from the bill just prior to its introduction on July 10. If this amendment is placed in the bill, it not only will be, in my judgment, illegal, unethical, immoral, and downright theft of these funds from the flue-cured producers who paid these assessments for the operation of their program. I wonder what the reaction would be from the burley producers if this situation was reversed. We strongly oppose any attempt of such a transfer of funds.

In conclusion Mr. Chairman, the basic concept of S. 1418 closely parallels policy of both North Carolina State Grange and National Grange tobacco policy. That policy is basically to 1) save the tobacco program, 2) address the excess stocks of the Stabilization Corporations, 3) limit assessments paid by tobacco producers to not more than 5 cents per pound and 4) if these three conditions are met, then we would favor a reduction in the price support to approximately $1.50 per pound for flue-cured and approximately $1.55 for burley.

The Grange does not oppose the basic principles of S. 1418; however, we could look upon it more favorably if the recommended changes I have stated today are incorporated into the bill.

We also realize many attempts will be made to further weaken this bill. On behalf of thousands of flue-cured and burley tobacco producers who depend upon this program for their livelihood, we would hope that their interests will prevail. Only the producers will suffer if we "save the program" but "lose the producer." Their future is in the hands of this Committee. We will do our part in working with you to insure they receive a fair and equitable program in the future.

Again Mr. Chairman, we thank you for this opportunity to appear before you and your Committee to express our views. I will be happy to attempt to answer any questions you or the Committee may have at this time.

STATEMENT OF JOHN N. PARKER, ASSISTANT TO THE PRESIDENT NORTH CAROLINA FARM BUREAU FEDERATION

Mr. Chairman and members of the Senate Committee on Agriculture, Nutrition, and Forestry, I am John N. Parker, Assistant to the President of the North Carolina Farm Bureau Federation. We appreciate the opportunity to share the views and concerns of our members with regards to the provisions of S. 1418, the "Tobacco Program Improvement Act of 1985".

The North Carolina Farm Bureau has attempted in good faith to cooperate with members of the Senate, their staff and staff for the Committee, representatives of other farm groups, leaf dealers, and cigarette manufacturers in the development of a package for legislative reform for the tobacco program. In fact, we have participated in eleven (11) tobacco meetings outside North Carolina in the past two and a half months in an attempt to reach reasonable solutions to problems plaguing the tobacco program.

Let me say that the Farm Bureau supports a tobacco program that provides stability and predictability for tobacco farmers and businesses associated with the tobacco industry. Such stability is essential to the economic survival of tobacco farmers and thousands of local businesses serving rural communities in tobacco land.

We have attempted, in good faith, to represent the tobacco farmer members of our organization in the development of a tobacco program which provides a reasonable opportunity to them to produce and market tobacco in order to make a living. We, in a letter to the Chairman dated February 11, 1985, made our position clear on conditions that we believe must be addressed in modifying or changing our tobacco program.

Briefly, those conditions were:

(1) There must be a meaningful reduction in imports of foreign grown burley and flue-cured.

(2) There must be relief from unbearable assessments and the inventories of tobacco under loan from the 1982-84 crops.

(3) There must be a maximum on the level of assessment imposed on growers.

(4) There must be a reinstatement of a responsible price support adjustor.

(5) Contingent upon successful achievement of the aforementioned points, North Carolina Farm Bureau would work for legislation to establish a national average price support level no lower than $1.50 per pound for flue-cured with a maximum five (5) cents per pound assessment imposed on growers.

It is within the framework of our position outlined at that time that we have attempted to cooperate in the development of a legislative reform package for 1986 and future crops of flue-cured tobacco. It is also within this same framework that we must measure the provisions of S. 1418.

In the area of imports, S. 1418 does not address the issue at all. We recognize the reluctance of the Administration and many members of the Congress to impose legislative restrictions on imports. However, we must emphasize that it is our firm conviction that a substantial part of the current tobacco problem is a result of imported tobacco. The USDA data submitted during the U.S. International Trade Commission hearing and investigation supports that conviction. The problem was that USDA refused to recommend a remedy (relief) to deal with the problem.

If imports are permitted to continue flowing into this country without some constraint, U.S. tobacco growers will continue to face declining production quotas and increasing assessments. Please understand that our tobacco farmers are having to compete in an economic environment over which they have virtually no control or influence. Two factors which quickly come to mind are the overvalued dollar and the assistance provided in production and exportation of tobacco in a number of countries. Those same two factors have crippled the U.S. textile, automobile, steel, shoe, and other industries. Yet, we continue to hear much espousing of the "free-trade" approach to world trade. It sounds great in theory, but in the real world of international trade, it is just not becoming a reality.

The second point addresses the issue of relief from responsibility for loan stock inventories which is covered in S. 1418. Section 9 does provide for conditions of purchase and an orderly removal of the inventory and we support that provision. We must point out a concern that the inventory purchase may not be complete and that, in fact, 100 or more million pounds of flue-cured tobacco could remain in the inventory. If that happens, about 65 million pounds would continue to be the responsibility of tobacco farmers. The point is that failure to achieve a complete buy-out, a situation is likely to exist that Flue-Cured Stabilization Cooperative will have two separate inventory pools; the unsold 1982-84 crops and the Reserve Stock Level as provided in Section 4.(a)(1)(C) and (D). Should that condition arise, growers would face one assessment of the pre-1985 crops and another to share in the financing of the Reserve Stock Level inventory.

Point 3 which relates to a ceiling or maximum exposure of assessment is not directly covered in the legislation. Indirectly, Section 4.(a)(1)(C) and (D) combined with (2)(B), if administered in absolute, could in effect act as a ceiling or maximum on the level of assessments imposed on both the growers and purchasers. If the provision for determining the quotas relating to the Reserve Stock Level is not effectively administered, assessments could again reach unbearable levels.

Point 4 deals with the price support adjustor for future years. Very frankly, here is where we begin to have some serious reservations about the new price support adjustor as set forth in Section 3 of the bill. The "Price Support Adjustments" section provides a method of determining future price supports that is much more complicated than the one currently in effect. Further, it appears to provide the best of both worlds for purchasers while allowing little consideration for the cost side of producing and marketing tobacco.

We expressed during the meetings which were held prior to the introduction of S. 1418 that the production cost factor should be given equal weight to the market factor. The index proposed to be established in this legislation related more directly to the production of tobacco and has as much opportunity to adjust downward as it does to adjust upward. There is one specific item that will be excluded as an item of cost of producing tobacco which we insist should be included. That item is the assessment. The grower assessment and payment of inspection and grading services are mandated by law and are not electives for tobacco farmers. The amount of fertilizer, chemicals and other input items can be varied by individual management decisions; the individual has no control over assessments and inspection charges. Assessment and inspection fees should be included as expense items.

There is considerable confusion as to whether or not the language in the bill is reflective of what was intended. For example, the language "'by which 95 per centum' of the average price received by farmers" was a separate option of discussion in the June 4 meeting. In the bill, we find that language incorporated with the 66.7 per centum weight given to the market side. We find that to be totally objectionable. The 95 per centum language must be removed from the bill.

Mr. Chairman and members of the Committee, cigarette manufacturing and leaf dealer firms are multi-national in scope of operation. They have the capbility of shifting buying patterns among the several producing countries from year to year; to dramatically affect the quantity of tobacco placed under loan in this country; and under provisions of this bill, ultimately have absolute control over production quotas, and the destiny of U.S. tobacco farmers.

We have reviewed a number of sets of projections that have been developed under the provisions of Section 3 and find variation of results in each of them. That could be telling us that the adjustment provision is quite complicated.

We, therefore, recommend that Section 3., (6)(A)(i) and (ii) be amended to read:

(i) "50 per centum of the amount by which the average prices received by farmers for flue-cured and burley tobacco, respectively, on the United States auction markets, as determined by the Secretary, during the five marketing years immediately preceding the marketing year for which the determination is being made, excluding the year in which the average price was the highest and the year in which the average price was the lowest in such period, is greater or less than the support level of the immediate preceeding year, and

(ii) 50 per centum of the change in the index of prices paid by tobacco growers from January to December 31 of the calendar year immediately preceding the year in which the determiantion is made."

This amendment will provide a more understandable price support adjustor; one which balances costs against the market side; one which could be as favorable or unfavorable to either the grower or seller. We believe it to be a fair approach.

We concur with the sharing of the assessments to the No Net Cost funds or accounts as provided in Section 8 of the bill. While it was our preference to have limited the amount of assessment exposure to the grower, effective administration of the excess or deficiency of the Reserve Stock Level should achieve that preference.

We recommend that Section 7.(a), "Purchase Requirements; Penalty", be changed in the new Section 320B. to require that each domestic manufacturer be responsible for 90 per centum (unless otherwise adjusted) of the amount of the intended purchase submitted or established rather than to use the "aggregate amount" as provided in (b)(3).

Mr. Chairman, the entire Section dealing with the "Review of Tobacco Grading System and Disaster Crop Designation" could be one of the most volatile issues in S. 1418. We recognize the need to deal with a sun-baked, drought affected crop at the earliest possible time. However, we must caution that care must be exercised that the adjustments are not structured in such a manner as to permit the overall reduction of the price support system.

Blanket designation of a crop as a disaster fails to recognize that it is unlikely that an entire area producing a given kind of tobacco has been affected by equal conditions. For example, in 1983 not all of the burley tobacco crop received the same weather conditions. As a result, there was wide variation in the desirability of the crop even within some producing states. Each offering of tobacco must be judged on its own qualities as prescribed in official grade standards. We would like to point out, however, that downward adjustments of the lower grades in the grade loan schedule will mean lowering of the loan value on the higher grades of tobacco. We simply suggest that caution be exercised in Section 11.

We support Section 12 of the bill to amend Section 5 of the Tobacco Inspection Act.

Although it has been assigned to another Committee of the Senate, we respectfully request the assistance of the members of this Committee in obtaining favorable consideration of amendments to the Internal Revenue Code as originally provided in Section 10(a) of S. 1418.

Mr. Chairman and members of the Committee, we ask your thoughtful consideration of the recommendations we have presented. Again, let us say to you that the North Carolina Farm Bureau supports a viable tobacco program; a program that is fair to the purchasers of tobacco and one that provides producers a reasonable opportunity to make a living.

Thank you for the opportunity to share our views.

STATEMENT OF JOE STANCIL, DIRECTOR COMMODITY DEPARTMENT, SOUTH CAROLINA FARM BUREAU

Mr. Chairman, and members of the Committee, I am Joe Stancil, Director of the Commodity Department of South Carolina Farm Bureau Federation; and I sincerely appreciate this opportunity to present the thinking of South Carolina Farm Bureau tobacco grower members regarding S. 1418. I also wish to convey regrets on behalf of our President, Mr. Harry Bell. He very much wanted to be here but due to a long standing, prior committment, was unable to do so.

Mr. Chairman, I am here today representing in excess of 5,000 members of SCFB who have a vested interest in the well-being of the tobacco program. The South Carolina Farm Bureau Tobacco Committee, which has long been recognized as the leading spokesman for tobacco growers in our state ... has spent many hours in study, deliberation and appraisal of the various proposals regarding changes in the tobacco program. Particular emphasis has been placed on what has developed as S. 1418.

Our committee is in full agreement that changes must be made in the tobacco program if it is to survive and serve in the best interest of tobacco growers. As you are aware, we have been deeply involved in the negotiating process that has led to the introduction of this legislation and we are in full support of the concept of S. 1418. However, there are several areas of concern, which by-the-way have been raised during the negotiating session, we feel need to be presented to the full committee at today's hearing.

Mr. Chairman, I offer the following points for you and your committee's deliberation:

1) Price Support - It was our understanding that the agreement reached during the previous session called for price supports to be calculated by a formula giving 50 percent weight to 100 percent of the market average for the previous five (5) years excluding the high and low years, and 50 percent weight to the producer prices paid index. Also, in this section we have serious concern over what input items will eventually be included and excluded in the calculation of the prices paid index.

2) Purchase Requirements; Penalty - Based on our understanding of agreements reached, we believe that the language in this section needs to be changed to reflect such agrements outling that any individual manufacturer who fails to purchase at least 90 percent of their purchase intentions will be subject to a penalty equal to twice the normal assessment.
3) Purchase of Inventory Stock - Growers in South Carolina believe that the language used in this section is not nearly as binding as it needs to be in order to assure that all domestic manufacturers participate in the purchase of inventory stocks. It is our understanding that it is legally impossible to out-and-out mandate that all domestic manufacturers participate. However, we do request that the committee explore the possibility of the inclusion of language that would create a situation whereby it would be economically advantageous for those manufacturers to participate.
4) Review of Tobacco Grading and Disaster Crop Designation - This entire section needs to be carefully evaluated so to avoid an overkill situation which could be extensively used to lower the overall support price. Blanket declaration of a "disaster" crop could, in fact, cause income reductions to growers who have invested in irrigation equipment, etc. We believe it is the intent of this section to go only as far as authorizing the development of individual grades which characterize low quality tobacco and that these grades be assigned on a sheet-by-sheet basis, thereby removing any reference to "A Disaster Crop".

Mr. Chairman, there is one additional topic which S. 1418 fails to directly address ... that is the problem growers are facing relative to the importation of cheap-foreign-grown tobaccos. This subject has been a thorn-in-the-side of growers for many years. As you are aware, we tried for relief through a Section 22 Request in 1981 and again in 1985, but were denied relief both times. We feel that any tobacco reform legislation needs to address this very important subject. It is difficult for growers to acept a lower price for their commodity and the strong probability of reduced quota, when there is no assurance that imports will diminish. We realize that imports were a taboo subject during the nogotiating session, however, it is one that needs addressing either through direct language or through language that makes it financially beneficial to companies to reduce substantially their importation of foreign-grown-leaf.

Mr. Chairman, in conclusion let me state that South Carolina Farm Bureau appreciates the efforts that have been taken by all concerned to develop worthwhile reforms in tobacco legislation. I would also like to reiterate our support for the concept and the majority of components embodied in S. 1418. We would like to request of you and the entire committee, that careful consideration be given to the proposals I have previously outlined.

Mr. Chairman, and committee members, again, thank you for this opportunity to present our views on tobacco reform legislation.

STATEMENT OF BENJAMIN F. REEVES, VICE PRESIDENT BURLEY AND DARK LEAF TOBACCO EXPORT ASSOCIATION

Mr. Chairman, my name is Benjamin F. Reeves, and I am vice president and managing director of the Burley and Dark Leaf Tobacco Export Association, based here in Washington.

The directors of my association have not had the opportunity to consider S. 1418 in a formal meeting, and therefore have taken no official position on the proposed legislation. But some of the officers and directors of the Export Association, and representatives of some of the constituent grower organizations within the Export Association, have been deeply involved in the negotiations leading up to the drafting and introduction of S. 1418. Their views are well known.

My appearance today is at the request of Mr. Will E. Clark, general manager of the Western Dark Fired Tobacco Growers Association, Murray, Kentucky, an important constitutent organization of the Export Association.

Mr. Clark has advised me that on June 28, directors of the Western Dark Fired group unanimously agreed on four points they would like to see included in any legislation approved by the Congress as they affect Types 23 and 35 tobacco.

Mr. William Porter, general manager of the Eastern Dark Fired Tobacco Growers Association, Springfield, Tenn., has advised me that his organization is in agreement with these recommended changes.

Mr. Chairman, in the interest of speeding consideration, I submit for the record the changes requested by the Western Dark Fired Tobacco Growers Association.

Change Requested by the Western Dark Fired Tobacco Growers Association in the Dark Tobacco Program for Types 23 and 35

1. For Type 23 and 35 tobaccos the Secretary of Agriculture shall announce March 1st of each crop year the amount of the quota. The Secretary shall solicit recommendations from growers, tobacco associations and the buying interest.
2. Price support for these types of tobacco shall be determined by the existing law, excluding the price support adjustments enacted in the Dairy and Tobacco Adjustment Act of 1983 with respect to tobacco. However, if it is determined by the associations representing the types of tobacco mentioned above, a change in the support price is needed and the Secretary of Agriculture approves, the support price could be changed without regard for the existing law.
3. The associations liability for the 1982, 1983, and 1984 crops of the aforementioned types of tobacco shall be covered by the following:
   (a) sales of tobacco.
   (b) profit on tobacco in any of the mentioned crop years.
   (c) money already collected for the No Net Cost Fund for the years mentioned.

Each type of tobacco must stand on its own.

4. Restructuring of the grading service is requested in order to insure that it is adequately independent with more stringent supervision. Such legislation should include the following:
   (a) The appointment of a small, permanent committee to make recommendations to the Secretary regarding improvement in the grading system.
   (b) Such committee will be responsible for making recommendations to the Secretary regarding provisions covering disaster crops.
   (c) The legislation will direct the Secretary to implement such recommendations in a timely manner in so far as practical.

STATEMENT OF ROBERT E. CLEMENTS, VICE PRESIDENT R. J. REYNOLDS TOBACCO CO.

Mr. Chairman, before I comment on the tobacco price support program and the substance of S. 1418, I want to acknowledge the fine leadership that you, Senator Ford, Senator McConnell and your staffs have provided during the long negotiations over the past several months. You and your representatives have exhibited an effective mix of patience, understanding, and determination as you have pushed and pulled us toward a consensus. Those of us who are in the cigarette manufacturing business appreciate your interest in our future and are grateful for your commitment to tobacco.

Mr. Chairman, since late last year, the R. J. Reynolds Tobacco Company has been on record as favoring long term reform of the federal tobacco program. Without reform, the federal tobacco program will collapse under its own weight.

And collapsing it is. During the ten year period of 1975-1985:

* Price support levels for flue-cured and burley tobacco increased by 50 percent.
* Combined basic marketing quotas for flue-cured and burley tobacco decreased by just under 40 percent.
* Total disappearance of flue-cured and burley tobacco fell by 20 percent;
* Combined beginning stocks of flue-cured and burley tobacco under loan to the federal government grew by 500 percent; and
* With the implementation of the No Net Cost Tobacco Program in 1982, grower assessments climbed from 3 cents to 25 cents per pound for flue-cured and from 2 cents to 30 cents per pound for burley.

Mr. Chairman, we believe that the following steps are essential to place the federal tobacco program on a sound economic basis.

* Significant reduction in the price support levels for the 1985 crops and a market oriented adjustment formula for future crops.
* Orderly buy-out of inventories held by flue-cured stabilization and the burley pools;

- The federal government's assumption of responsibility for any losses from the loan inventories of the drought-stricken 1983 burley crop;
- Equitable sharing of the costs associated with carrying excess of tobacco stocks among growers and purchasers; and
- Modification of the tobacco grading system so that the assigned grades accurately reflect the quality of the tobacco and so that disaster tobacco can be supported at market-clearing price levels.

When implemented as a package, these steps impose burdens on those parties involved in return for important benefits received. Growers get substantially lower assessments for the future in return for a reduction in price support levels. Manufacturers assume equal responsibility for carrying future loan inventories of tobacco and buy up large quantities of less desirable tobacco stocks in return for access to more competitively priced domestic leaf. The federal government discounts stocks of tobacco in return for a plan which greatly reduces its budget exposure. In short, everybody pays and everybody benefits.

S. 1418 addresses each of the above steps, in some cases satisfactorily and in other cases not so satisfactorily. S. 1418 does a reasonably good job with respect to the buy-out of current inventories, the federal government's assumption of losses associated with the 1983 burley crop, incorproaton of manufacturers' buying intentions into the quota determination process, and the equitable sharing of assessment costs.

However, the price support provisions of S. 1418 give us cause to worry. R. J. Reynolds originally sought to have price support levels for flue-cured and burley tobacco reduced to $1.30 and $1.35 per pound, respectively. S. 1418 reduces the support levels to $1.40 and $1.45. After accepting $1.40 and $1.45, R. J. Reynolds wanted the reduced price support levels to be applicable in both 1985 and 1986. S. 1418 limits their application to 1985. R. J. Reynolds originally advocated a formula that would have established future price support levels at 95 percent of a moving five-year market price average. S. 1418 provides for a support price level adjustment formula that also gives weight to grower production costs. We are concerned that such a formula might lead to future price support levels that are unrealistic in light of world market conditions.

As a bottom line proposition, R. J. Reynolds believes that S. 1418 provides for necessary steps toward meaningful reform of the current federal tobacco program. Because we believe an economically sound tobacco program is in the best interests of growers, purchasers and the economy, R. J. Reynolds is prepared to work for passage of S. 1418.

STATEMENT OF O. WITCHER DUDLEY, VICE PRESIDENT
PHILIP MORRIS U.S.A.

Good Morning, Mr. Chairman: My name is Witcher Dudley, and I am Vice President of Leaf for Philip Morris U.S.A., Richmond, Virginia. I have been employed in the leaf tobacco business in various capacities for 33 years.

Philip Morris has long supported the need for a tobacco price support program for flue-cured and burley tobacco in the United States. Our company feels that such a program is necessary in order to ensure a continuous supply of quality tobacco for the products we make and sell in the United States and export to makrets around the world, as well as to ensure fair prices to the growers for the leaf they produce.

In recent years it has become obvious to us, as well as to many other people, that the existing tobacco price support program was not doing the job for which it was intended.

- American leaf prices have become uncompetitive on the world market.
- Marketing quotas have been set without regard for realistic market demand.
- The incentive to produce high quality leaf has been reduced.

The consequence has been that large surplus stocks have been taken under loan causing assessments, through the No Net Cost requirement, to escalate to intolerable levels for the growers. In recent years, declining cigarette production has further aggravated the situation of surplus stock levels.

The proposed statute is a compromise which attempts to balance many factors and, as such, is perfect in no one's eyes. In total, however, we feel that it is a big step in the right direction for resolving the problems which confront the tobacco growing community and the entire U.S. leaf tobacco industry.

As we see it, this bill, if passed, will make the production of flue-cured and burley tobacco more responsive to world market trends in price, quantity, and quality and should, therefore, improve the competitive position of American leaf. The provisions of this legislation may enable U.S. growers to recapture markets and increase total production over the years.

American tobacco growers will benefit as future No Net Cost assessments should be much lower under the provisions of this act and will be shared on an equal basis with purchases.

Finally, Philip Morris, along with most of the other major U.S. cigarette manufacturers, has committed to purchase its proportionate share of existing loan stocks of both flue-cured and burley tobacco. May I remind you that this is tobacco we don't either want or need. This commitment, which will cost Philip Morris alone many hundreds of millions of dollars, is a concrete demonstration of our continued support for the tobacco program and tobacco growing community.

Mr. Chairman, Philip Morris endorses the Tobacco Program Improvement Act of 1985, we commend the Senators and others who were instrumental in its formulation and recommend its speedy approval by the Committee. Thank you.

STATEMENT OF BOB BOUSE, LEAF PURCHASE DIRECTOR
AMERICAN TOBACCO CO., DURHAM, N.C.

We believe in the concept of free trade and free markets. We recognize the rights of tobacco growers to collectively work together and to recommend production pounds, minimum sales prices, loan rates and any other control related to their group which does not violate the principle of a free market.

The American Tobacco Company does not belong to trade organizations. On occasion, we do attend open and public meetings and conferences of growers associations. However, as a matter of Company policy we have not made recommendations as to tobacco production, support prices, number of markets, openings and closings of markets or other factors pertaining to the production and marketing of tobacco.

The American Tobacco Company has historically bought tobacco through its own buyers and thereby provided competition at the auction market level. For the past ten years we have purchased from the U.S. market more than 95 percent of our Company's Flue-Cured requirements and more than 95 percent of our Company's Burley requirements. For this same period less than 2 percent of our total cigarette blends consisted of offshore Flue-Cured and Burley tobaccos.

We do not oppose the proposed legislation to help the growers. We are one of two domestic manufacturers who maintain their own buying organization following the auctions, thereby providing competition at the market place. Due to a declining cigarette sales situation, we do not expect to participate in the buy-out portion of the proposed legislation, as this would require too much of our needs to be purchased from past pool stocks and jeopardize our ability to continue our presence on the auction markets and our ability to select the quality our blends require.

The discontinuance of our buying staff and closing of our processing facilities due to the lack of volume coming from the auction markets would affect a gross investment of our $11 million in prizing and processing facilities and equipment. In addition, we would have to eliminate 215 jobs in both buying and processing as well as the jobs of over 1,000 people hired on a million dollars for services and supplies in these operations. As you can well understand, we consider our ability to continue our presence on the auction markets as important not only to our Company, but to the economics of the tobacco producing states, and to the growers.

In summary, we are anxious to continue to buy American grown tobacco at auction under a stabilized program which is able to re-establish itself in the world markets.

STATEMENT OF ERNEST PEPPLES
SENIOR VICE PRESIDENT AND GENERAL COUNSEL
BROWN & WILLIAMSON TOBACCO CORPORATION

Brown & Williamson Tobacco Corporation has actively participated with the other manufacturers, the representatives of the tobacco growers and their associations, and members of the Senate and House in the arduous, but cooperative, effort to fashion legislation to preserve the tobacco price-support program by making needed reforms in that program. I think S. 1418 does accomplish our common goal.

Each of the parties affected by this legislation--manufacturers, growers and government--has accepted some short-term burdens and costs in the realization that over the long term all would benefit.

The pivotal element of the legislation is a buy-out by the domestic cigarette manufacturers of billions of dollars of overpriced, surplus tobacco from the inventories of the producer associations. This means that over the next five to eight years we shall be purchasing a great quantity of that surplus tobacco, much of it poor quality, which we neither need nor want, while we are committed to continue our purchasing at auction when the 1985 and future crops come to market.

The manufacturers have accepted this commitment because we believe our economic welfare is inseparably connected to the economic welfare of the U.S. tobacco grower, and his welfare is clearly threatened by the impending prospect of collapse of the present program in the absence of genuine reform.

Such reform is an absolute necessity. The buy-out of surplus stock, standing alone, would be merely a temporary palliative. The complementary sections of the legislation provide the long-term corrective measures that are needed to accomplish effective reform.

The grower representatives who helped create this bill also deserve credit for putting aside short-term self interest in favor of a long-term view. The growers would accept present reductions in the price-support levels and production quotas in recognition that the buy-out of surplus tobacco will eliminate the crushing burden of mounting assessments to pay loan carrying costs, the reduction of tobacco prices to more competitive levels will inevitably increase sales in the world market, and the restriction of production to realistic levels will prevent the future recurrence of unmanageable assessments. The manufacturers have also agreed to share one-half the cost of all future assessments that may occur.

The stocks of surplus tobacco grew to their alarming levels because of the unrealistic way price-support and production-quota levels have been set in the past. Price support levels have far exceeded world market prices, with predictably adverse effects upon demand. S. 1418 addresses this problem by providing for significant reduction of support levels and determination of production quotas based on realistic projects of actual demand each year.

With support prices set at more competitive levels, over the long run demand will grow and justify increased production levels. The market is there, but the opportunity to exploit the quality advantage of U.S. tobacco and participate fully in that market has been neglected. It is true that the market for cigarettes in the United States is flat or declining, but the world market is growing. Realistic pricing will permit U.S. tobacco growers the opportunity to reverse the drastic decline in their share of that market in recent years.

In the years 1955-59, the U.S. controlled a 60 percent share of world exports of flue-cured and burley tobacco. However, by 1982, its share of that market had declined to 25 percent. Simply put, we have been pricing ourselves out of the market. While the total world market for flue-cured and burley tobacco was increasing significantly, U.S. exports have actually declined in recent years.

The government also gains in the long run under this legislation. In the near term, the Commodity Credit Corporation will absorb some losses under the terms of the buy-out, but those losses are modest compared to those it would suffer in the absence of reform legislation. Without legislaton, the price-support program will soon collapse. Under the terms of the CCC's non-recourse loans to producers, it would then be saddled with the mountainous inventories of overpriced, unmarketable tobacco which secure those loans. The buy-out plan is, in fact, a rescue mission which aids the government by eliminating the risk of calamitous losses from wholesale default on the CCC price-support loans.

Critics of the program who call it a raid on the public treasury by the manufacturers are being disingenuous and unfair. Their criticism is a red herring designed to divert attention from the public-subsidy aspects of their own proposals, which reject the market-oriented approach of S. 1418. Their proposals to fund the tobacco program with cigarette excise tax revenues is nothing but a dole for the farmers with an ever-increasing price tag for the taxpayer. Earmarking excise-tax receipts is a thinly-disguised way of diverting funds from the general revenues that will have to replaced at the expense of the taxpayer. Increasing the excise taxes is a proven way to reduce consumption of tobacco, thereby increasing the demand for more public subsidy to compensate for lost sales.

STATEMENT OF WILLIAM L. QUISENBERRY, SECRETARY KENTUCKY FERTILIZER AND AGRICULTURAL CHEMICAL ASSOCIATION

Mr. Chairman and members of the Committee on Agriculture, I want to thank you for this opportunity to respond to the present crisis facing the tobacco farmer and Agribusiness Community in Kentucky. Presently the farmer is faced with decreasing demand, increasing surpluses, and lower prices, there is not one bright spot in the farming community.

Tobacco is the mainstay of the economy in about 70 counties out of 120 in the State of Kentucky. In my county, Clark County, $23,000,000 worth of tobacco is sold, at the present time there is nothing short of an automobile manufacturing plant that can replace that much income. Out of that $23,000,000, $12,000,000 will stay in Clark County. In the state overall, tobacco meant $944,000,000 worth of gross revenue to the farmers of Kentucky in 1984. The effect of taking almost 1 billion dollars away from the economy of Kentucky would be devastating. The ripple effect throughout the economy would touch every part of the economic structure of our state.

In the counties where tobacco is the principal crop. It represents approximately 40 percent of the fertilizer and chemical sales of the local farm supply dealers. That means that if we were to lose the Program some of us would have to go out of business and jobs and tax revenue would be lost. My own business is typical, tobacco supplies make up 42 percent of our gross sales volume. It is questionable as to whether or not we could remain in business with that kind of loss. I average 15 employees, so 15 good hardworking people would be without a job.

If the Tobacco Program is dismantled by the Senate and Congress, 4 significant things will happen. (1) The United States will grow less tobacco each year until tobacco becomes an insignificant part of our nations agricultural economy. The United States could eventually lose 4 to 5 billion dollars of potentially taxable income to foreign markets because of the very nature of tobacco. It is a labor intensive crop and as we all know in most of the foreign countries growing tobacco, labor is cheap by our standards. So as you can readily see our balance of trade would be seriously effected. (2) People will continue to smoke, but will be smoking tobacco grown in uncontrolled conditions where any number of illegal, or dangerous chemicals could be used on the crop. To keep this from happening our Department of Agriculture will have to entensively test all tobacco coming into the United States. This will be very costly to the taxpayer. Everybody recognizes the fact that American tobacco has the highest quality, and the lowest tar and nicotine, these two things, along with dangerous pesticide residue are what we want to guard against. I want to emphasize that by dismantling the Tobacco Support Program you may actually be increasing the chances of injury to the people that smoke. (3) More people will go on welfare rolls in states that can least afford it. (4) Taxes will have to increase somewhere to make up for the loss of the tax revenue generated by a 4 to 5 billion dollar industry lost to foreign producers. I'm sure that most people that are against the Tobacco Support Program don't realize that their Federal and State taxes will eventually have to increase because of the loss of our tobacco market to overseas, (foreign) producers. The Senate and Congress must see that it cannot simply legislate away an industry that contributes so much to our nation's economy without causing tremendous repercussions which will be felt for years to come.

I cannot understand the logic of eliminating a program that has been practically self supportive up until the last 2 or 3 years, and that contributes so much to the economy of the United States, when by so doing would only accomplish negative results.

I want to close by asking you to help lower the Deficit instead of raising it by supporting the 1985 Tobacco Program Improvement Act. Thank you for this opportunity to testify on behalf of the Agribusiness Community of Kentucky.

STATEMENT OF MATTHEW L. MYERS, STAFF DIRECTOR COALITION ON SMOKING OR HEALTH

Mr. Chairman, and members of the Committee, my name is Matthew L. Myers. I am the Staff Director of the Coalition on Smoking or Health, an organization formed by the American Lung Association, the American Cancer Society, and the American Heart Association and backed by many of this nation's leading private health, education and youth leadership organizations. The Coalition was created to bring to the attention of legislators and other governmental officials smoking prevention and education issues. On behalf of the Coalition on Smoking and Health and its member organizations, I want to thank you for this opportunity to express our views about the merits of S. 1418.

From its inception, the Coalition has expressed its strong opposition to the inconsistency of the federal government's policies which, on the one hand, acknowledge that cigarette smoking is the single most preventable cause of death in the United States but, on the other hand, provide federal assistance and tax dollars to support the growth of tobacco. Therefore, the Coalition has endorsed the goal of legislation designed to eliminate the expenditure of federal funds to support the growth of tobacco, a position to which we remain committed today. From the viewpoint of the health community, it is the expenditure of general taxpayer dollars to support the growth of a crop which has been condemned by every Surgeon General since 1964 as a major health hazard which has made the tobacco price support program so politically controversial and so vulnerable.

The tobacco price support program must be looked at in the context of the health hazards of cigarette smoking. Last year alone, over 350,000 people in the United States died from smoking-related diseases. Every day approximately 1,000 Americans die as the direct result of their smoking addiction. Cigarette smoking is by far the major cause of lung cancer, a major cause of cancer of the larynx, oral cavity and esophagus, and a significant contributory factor for the development of cancers of the bladder, pancreas and kidney. Smoking is a major cause of and one of the three most important risk factors for coronary heart disease. No other risk factor is more important. Smoking is also the major cause of both emphysema and chronic bronchitis and smoking during pregnancy increases the risk of both prenatal death and spontaneous abortion. More recently, scientific evidence has demonstrated that smoking is more than a bad habit, it is an addiction and drug dependence more widespread and more harmful than all of the illegal drugs about which so much concern has been expressed.

Many supporters of this program have commented about its costs as compared to other programs which support the growth of a variety of farm products. Those who make this argument miss a fundamental point: tobacco is not a food, nor is it used in the manufacture of clothing. Tobacco is a health hazard. It harms, it does not nourish. Put simply, tobacco is not the same as wheat or sugar and what the federal government does with regard to the growth of tobacco has nothing to do with merits of other agricultural programs.

While the Coalition has consistently opposed legislative efforts to continue the expenditure of federal taxpayer dollars to promote the growth of tobacco, the Coaltion also has expressed its concern about the economic welfare of the tobacco farmer and the need for Congress and the public to carefully consider the welfare of the tobacco farmer as it debates how best to address both the agricultural issues posed by the growth of tobacco and the health-related issues posed by the known harmful effects of cigarette smoking. The tobacco farmer is not the enemy of the health community. The enemies of the health community are cigarettes and their harmful effect. For the last five years and for the foreseeable future, the major enemy of the tobacco farmer has been the major multinational cigarette manufacturers who have elected to inflate their profits by their increasing use of foreign grown tobacco, much of which is raised without the pesticide and other health restrictions imposed on the American tobacco farmer. The problems now facing the American tobacco farmer are a direct result of the decision of these manufacturers to import an ever increasing amount of foreign grown tobacco rather than the decreases in consumption which have occurred as a result of the health community's educational efforts. The reality is that cigarette consumption in this country could drop by an additional 30 percent without harming tobacco growers if the major cigarette manufacturers purchased their tobacco in the United States rather than abroad.

The Coalition's concern for the welfare of the tobacco farmer is real and, as we acknowledged in testimony last week before a Joint Hearing of the Tobacco and Peanut Subcommittee of the House Agriculture Committee and the Subcommittee on Select Revenue Measures of the House Ways and Means Committee, the Coalition is prepared not to oppose creative, innovative approaches which help tobacco farmers resolve the current crisis and which provide them with some protection against the unfair increased reliance by the major cigarette manufacturers on foreign grown tobacco. H.R. 2600 introduced in the House of Representatives by Congressman Charlie Rose and its companion bill introduced in the Senate by Senator Al Gore, and S. 67 introduced by Senator Gore and cosponsored by Senator Ford, create just such an opportunity to address both the concerns of the health community and to begin to address some of the major issues confronting the American tobacco farmer today.

However, the Coalition is here this morning to announce its strong opposition to S. 1418. This legislation along with the administrative action currently being urged upon the Department of Agriculture will cost the American taxpayer approximately 1 billion 200 million dollars, will benefit the major multinational manufacturers rather than the American tobacco farmer, and will make a mockery of our anti-trust laws. At a time when Congress is struggling to reduce the federal deficit, cut government spending and permit the economy to operate more freely, it is bad governmental policy to expend $1.2 billion dollars to bail out the tobacco price support program, especially in light of the fact that the primary beneficiary of this special interest legislation will be the large multinational cigarette manufacturers rather than the small family farmers.

There is no serious dispute about the massive costs of the bail-out envisioned by S. 1418. Witness after witness from the "tobacco family" who testified at the Joint Hearing in the House of Representatives last week acknowledged that S. 1418 carried a price tag to American taxpayer in excess of 1 billion dollars. The Congress of the United States spoke clearly in 1982 when it enacted the No Net Cost Tobacco Act that from that date on the tobacco price support program should operate at no net cost to the American taxpayers. S. 1418 reneges on that promise. According to all reasonable estimates, the disposal of the 1983 burley crop according to the program envisioned by S. 1418 will cost the American taxpayer between 400 and 500 million dollars. In addition, the disposal of the flue-cured tobacco now in storage will cost the American taxpayer well over 550 million dollars. Who will be the primary beneficiary of this largess? The answer is simple. It will be the major multinational cigarette manufacturers who will be permitted to buy the quality tobacco now in storage at up to 90 percent discount off the price the American taxpayer paid for it.

This legislation also fails to address the foremost problem now facing the American tobacco farmer: imported tobacco. Over the past decade the number of tobacco farmers and the size of the overall tobacco quota under the tobacco price support system have decreased markedly. Most of these tobacco farmers have been squeezed out of business by the impact of the flood of cheap, imported tobacco. S. 1418 will make it even more difficult for the American tobacco farmer to combat the move on the part of the cigarette manufactures to further inflate their profits by the use of imported tobacco. According to this bill, the amount of tobacco American farmers will be permitted to grow will depend almost entirely on the amount of tobacco the cigarette manufacturers say at the beginning of the year they are willing to buy. If the cigarette manufacturers decide to buy more foreign tobacco, they will simply order less American tobacco and America's tobacco farmers will be required to grow less. This legislation provides no incentive for manufacturers to buy domestic tobacco, nor does it provide the farmer with any protection against the abusive practices of the manufacturers in turning to foreign sources.

It also is the ultimate irony that this tobacco price support program legislation is being supported by Senators who have been the strongest advocates of a free market economy because if this bill passes, no industry will be more controlled and less subject to free-market competition than the tobacco industry. According to the plan envisioned by this legislation the major manufactuers will be permitted to jointly agree how much tobacco currently in storage each will buy and for how much. There will be no price competition and no competition for who gets what tobacco. In the future, the American tobacco farmer will be told how much tobacco he can grow based primarily upon the statements of the cigarette manufacturers of how much American tobacco they will agree to buy at the price support level. Thus, cigarette manufactures will control the quantity of tobacco, thereby eliminating all competition for the tobacco and all price competition.

In conclusion, for several years the Coalition on Smoking or Health has been saying that the issue, as we see it, is not whether the federal funding for the tobacco price support program should be ended, but how best can this task be accomplished fairly without unduly harming the economic welfare of the tobacco farmer and without unduly burdening the American taxpayer. In 1982 it appeared that Congress had taken a step in the right direction with the passage of the No Net Cost Tobacco Act. S. 1418 is a dramatic step in the wrong direction. At a time of a staggering budget deficits, debates about whether senior citizens must endure a Social Security cost of living freeze, reduced funding for health research and health educaton and a general belt-tightening throughout government, the American taxpayer cannot afford the $1.2 billion price tag imposed by this legislation. If this legislaton passes, there will be two major losers: the American taxpayer and the American farmer. One group will receive a major windfall profit--the major cigarette manufacturers. We urge you to look for other alternatives for addressing the very real and very serious problems facing the American tobacco farmer. Alternatives do exist to address those problems in a manner consistent with the overall health goals of the federal government and we stand prepared to work with you to develop and work for those alternatives.

STATEMENT OF G. B. MIDDEN, JR., PRESIDENT COUNCIL FOR BURLEY TOBACCO, INC.

My name is G. B. Midden, Jr., President of the Council for Burley Tobacco, Inc. I am a tobacco, livestock farmer from Harrison County, Kentucky.

We are all aware of the many problems facing the tobacco industry. During the past two years producer groups and cigarette manufacturers have been meeting to identify our problems and to come up with some solutions.

Tobacco producer groups developed a statement a year or so ago outlining recommendations to improve the tobacco program.

I believe the "Tobacco Program Improvement Act of 1985" includes most of the recommendations of the producer groups. Cigarette company officials and representatives of producer groups have met several times and have generally agreed on what should be done to change the tobacco program to correct the problems identified by all segments of the tobacco industry.

Tobacco farmers have demonstrated their willingness to make sacrifices to solve our problems by agreeing to lower support prices for tobacco in exchange for help in disposing of large supplies and in financing the cost of the program.

The "Tobacco Program Improvement Act of 1985" reflects the compromise made by the tobacco producer and cigarette manufacturer in these earlier negotiations.

I believe this legislation will make U.S. tobacco more competitive in the world market, reduce burdensome supplies and reduce cost to the government.

On behalf of the Council for Burley Tobacco, Inc., I urge you to support this legislation.

The Council for Burley Tobacco, Inc
Lexington, Ky.
July 17, 1985

Honorable Wendell H. Ford
U.S. Senate
173 A ~~Russell~~ Senate Office Building
Washington, D.C. 20510

Dear Senator Ford:

The Council for Burley Tobacco, Inc. unanimously supports the "Tobacco Program Improvement Act of 1985". The Council's organizations include:

Kentucky Farm Bureau Federation
National Farmers Organization of Kentucky
Burley Farmers Advisory Council
Burley Tobacco Growers Cooperative Association
Burley Leaf Tobacco Dealers Association
Burley Auction Warehouse Association
(4) Kentucky Burley Farmers at large
Missouri Council for Burley Tobacco
Indiana Farm Bureau Federation
Indiana Tobacco Improvement Club
Ohio Farm Bureau Federation
Virginia Farm Bureau Federation
Tennessee Stabilization Corporation

The Council for Burley Tobacco, Inc. believes "The Tobacco Program Improvement Act of 1985" is the best alternative available to tobacco growers and will result in U.S. tobacco being more competitive in the world market, reduce supplies, and lower cost to the government and therefore urges your support of this legislation

Sincerely yours,

G. B. Midden, Jr., President

STATEMENT OF DAVID E. BOSWELL, COMMISSIONER
KENTUCKY DEPARTMENT OF AGRICULTURE

Mr. Chairman and members of the Committee on Agriculture, I thank you for the opportunity to present my testimony in support of the Tobacco Program Improvement Act of 1985.

I am privileged to represent the interests of the 104,000 farmers in the Commonwealth of Kentucky. In order to do so responsibly, I have held public hearings throughout our state to give those important citizens an opportunity to voice their concerns about issues being developed in our Nation's Capitol that will affect their lives and livelihood.

They are, of course, deeply concerned about the level of consideration given by many of their national leaders to the importance of agriculture to the quality of life we Americans enjoy, and to the stability of this nation. They wonder if what they do is sometimes taken for granted, if it is indeed recognized as the most important, most basic ingredient in this nation's economy.

They are troubled about the inability to get the credit they need to do the job required of them. They wonder about their failure to recoup, year after year, sufficient return on their labor to make farming profitable. They pay continuing high interest costs and wonder why. They see their land values tumbling and wonder whether they'll make it through another crop year. They see their markets dwindling both in this nation and in other countries and wonder who is speaking for them in the high councils where their foreign competition seems to gain a greater foothold each day.

But the factor that makes Kentucky farmers unique in today's farming picture is tobacco. Oft times it is tobacco's income that allows Kentucky farmers to continue to do what they and their counterparts across this country do better than anyone else on earth.

They understand better than any of us in a position of leadership on this issue of the future of the tobacco industry, just what problems face tobacco today. And they understand what their options are.

Hundreds of them in our public meetings have told me that they understand why they must settle for $1.45 as the burley support price. They have had to get used to the idea, but see it as a reasonable part of a plan that can save their industry.

Kentucky's burley farmers see in this plan some very positive and salient points. The equal sharing of the no-net-cost assessments with the tobacco companies opens the door to a relationship with the manufacturers that can spell a new era of cooperation between producer and processor.

Kentucky farmers, I believe, see in the 1985 Tobacco Program Improvement Act's provision of the buy-out of existing pool stocks a real easing of the terrible weight that has diminished their ability to view each succeeding year's crop with much more than worry and concern.

I believe that I speak for most Kentucky burley producers when I say that this program is perhaps not perfect, but given the alternative which is the ultimate loss of a program on which the economy of our Commonwealth so deeply depends, it is certainly the most acdeptable choice.

Yes, Mr. Chairman, agriculture is in trouble across the width and breadth of this great nation. But the resourceful farmer most often finds a way to survive, And in each region of this nation, farmers have their unique crops, their unique parts of a great agricultural industry which they produce and foster better than any other farmer anywhere.

In many cases, that unique feature has a deep role in the economy of that region or state. In Kentucky, it is burley tobacco.

The burley tobacco crop in 1984 in Kentucky was $1 billion, fully a third of the farm gate value of all agricultural output in the Commonwealth last year. Last year, Kentucky farmers and farm workers received an estimated net income from tobacco of $453.7 million dollars. In Kentucky, the peak farm labor employment during the tobacco season is 85,000 individuals. At its peak, tobacco in Kentucky is the fourth largest industry, by itself, surpassed on by government, manufacturing and the retail trade and service industry.

A 1983 study conducted by the University of Kentucky estimated tobacco's indirect impact on the Kentucky economy as fully responsible for total full-time employment of 118,258. That means that nine of every 100 jobs in Kentucky exists because of tobacco.

The value of the commerce generated in Kentucky by tobacco is fully $7.5 billion, more than nine percent of the total gross product of the state. Income in Kentucky traceable directly back to tobacco is $1.2 billion, five percent of the total income of working Kentuckians.

The total contribution of tobacco to Kentucky's General Fund is more than $225 million annually, more than nine percent of the Commonwealth's General Fund revenue.

In Kentucky, tobacco contributes mightily to the income of local governments, the upkeep and revenues on which loan school operations depend, the income required by local banks to keep their doors open, and the commerce needed, of course, by agribusiness in the state which employs thousands.

For local governments, a faltering tobacco industry would mean substantially reduced property taxes because of declining land values. Of even greater concern is the proposition that a substantial portion of the real estate value in rural Kentucky is based on the value of the tobacco quota. If the right to grow tobacco is reduced or eliminated, land values would fall dramatically.

So, Mr. Chairman, it is easy to understand that any decline in the prospects for tobacco will have an adverse and disastrous effect on Kentucky tobacco farmers. Almost 72 percent of them depend upon tobacco for at least half their gross farm sales. Meanwhile, 76 percent of them have a net annual farm income of less than $10,000. Forty-seven percent of Kentucky tobacco farmers have an annual total family income of less than $20,000. Sixty-one percent of them are 46 years of age or older. Eighty-three percent grew up on the farm and 44 percent have less than a high-school education.

There is no question of the deep attachment of the Kentucky tobacco farmer to farming and his farm, and a change in vocation that might be brought about by the demise of the tobacco support program would be catastrophic.

Mr. Chairman, I want to take this opportunity to praise, on behalf of Kentucky's tobacco producers, the efforts of yourself and Senators Ford and McConnell in supporting and encouraging the important and well-reasoned solution to some of very difficult questions portrayed by the Tobacco Program Improvement Act of 1985.

For the sake of an important industry and a significant segment of the economy of this Nation and our Commonwealth, I urge the passage of this significant legislation.

Thank you for this opportunity to testify on behalf of the tobacco farmers of Kentucky. I remain willing and eager to contribute further to these proceedings should the need or opportunity present itself.

STATEMENT OF STEPHEN R. HORNBACK, PRESIDENT BURLEY FARMERS ADVISORY COUNCIL

My name is Stephen R. Hornback, President, Burley Farmers Advisory Council, an organization of burley tobacco farmers whose primary interest is a progressive burley tobacco industry. I own and operate a tobacco, grain and livestock farm in Shelby County, Kentucky.

We are all aware of the many problems facing the tobacco industry. During the past two years the tobacco leadership has been working to try to find some answers to our problems. Representatives of these tobacco producer groups started meeting with representatives of cigarette manufacturers some two and one half years ago in an attempt to identify our problems.

Following these discussions tobacco producer groups developed a producer statement consisting of ten recommendations for changes in the tobacco program. Almost all of these ten recommendations have been incorporated into the "Tobacco Program Improvement Act of 1985". Most of our problems in tobacco are related to the price support levels, determination of the quotas, and large pool stocks.

I believe the "Tobacco Program Improvement Act of 1985" addresses all of these problem areas and will go a long way in solving these problems. Tobacco farmers have demonstrated their willingness to make sacrifices to solve our problems by agreeing to lower support prices for tobacco in exchange for help in deposing of large supplies; and in financing the cost of the program.

The "Tobacco Program Improvement Act of 1985" is a product of negotiations and compromise between tobacco producer representatives and representatives of cigarette companies.

I believe this legislation will help to make our tobacco more competitive in the world market, reduce the burdensome supplies of tobacco in storage, and will ultimately reduce the cost to the government. I therefore support this legislation and believe it is the best alternative available to the tobacco industry.

STATEMENT OF GEORGIA FARM BUREAU FEDERATION

On behalf of tobacco growers in the State of Georgia, we want to thank the Senate Agriculture Committee for holding this hearing on S. 1418. The introduction of S. 1418 comes at a time when tobacco growers in the State of Georgia are facing serious financial problems.

We believe that S. 1418 is a sincere effort by its sponsors to reach a fair compromise between growers and manufacturers.

We believe that S. 1418 can work as long as all parties act in good faith.

We believe that S. 1418 should be amended to require each manufacturer to purchase at least 90 percent of their total amount of intended purchases. This will insure competition at the market place when manufacturers are bidding on growers' tobacco.

We additionally believe that a more equitable formula should be worked out on determining price supports. We believe that 50 percent of the price support should be based on market prices for the five preceding years excluding the highest and lowest years, and that the other 50 percent should be based on prices paid by farmers for production costs during the previous calendar year.

We believe that with these two changes, the bill will be fair to both growers and manufacturers and that it will bring growing and manufacturing interest together working for a no-net cost tobacco program which will not cost the taxpayers any substantial amount of money. We point out that at the same time this program would not cost the taxpayers any money;billions of dollars are being paid into local, state and federal treasuries from taxes on tobacco.

Again, we thank you for letting us present this statement on behalf of tobacco growers in the State of Georgia.

Virginia Farm Bureau Federation
Richmond, Virginia
July 22, 1985

Senator Jesse Helms, Chairman
Senate Agriculture Committee
402 Dirksen Office Building
Washington, D.C. 20510

Dear Senator Helms:

May I first thank you and your committee staff for the work and attentiveness provided to the tobacco producers in formulating S. 1418, the Tobacco Program Improvement Act. I regret that I cannot attend the July 22 hearing on this bill due to my involvement in our Annual Presidents Summer Conference.

Therefore, I am enclosing our complete statement for inclusion in the hearing record. This statement was developed by our Tobacco Advisory Committees in recent weeks.

I hope you and the committee will look favorably upon our comments as I can think of no other group of agriculture producers that has worked harder or sacrificed more in recent years to bring about acceptable program changes.

Sincerely,

S. T. Moore, Jr., President

STATEMENT OF THE VIRGINIA FARM BUREAU FEDERATION

Senator Helms and members of the Committee, I will not go into detail regarding the current situation tobacco finds itself under the No Net Cost legislation, recent attacks upon the program, nor other concerns as you are well aware of the situation. Therefore, my remarks will relate directly to our views on S. 1418, The Tobacco Improvement Act.

At the offset, let me assure you that this organization supports the concept and principal embodied in S. 1418 namely, the level of support price and the disposal of loan stocks provided the methodology does not impose undue risk and economic burdens to one particular segment of the industry.

List below are 7 features of the Tobacco Improvement Act and our reaction to them:

Price Support

Lowering the price support level to $1.40 for flue-cured and $1.45 for burley are acceptable to our growers and should make U.S. tobacco more competitive in the market place.

However, we are concerned about the formula for adjusting price support in future years. We were under the impression that the negotiators agreed that fifty percent weight would be given to both the average market prices and the index of prices paid by tobacco farmers. We continue to support this methodology. It must be remembered that tobacco producers under the Federal support price and loan programs are the only group that directly underwrites the cost. Additionally, if economic objectivity is to be maintained in developing a new formula a 50/50 ratio between the two components is a necessity.

Regarding components to be excluded in the index of prices paid by tobacco farmers, we suggest that assessments be exempt from this list. In our view, assessments should be considered in the same category as seed, fertilizer, fuel, and herbicides, et cetera.

Determination of Marketing Quotas

We are in agreement with these provisions as provided for in S. 1418.

Purchase Requirements

It is our understanding that the objective of this section is to ensure that projected purchase intentions are actually bought since short falls would result in additions to the loan stocks. Therefore, we request that the legislation be amended whereby each purchaser would be required to uphold 90 percent of its statement of intended purchases.

Assessments

We are in agreement with these provisions provided for in S. 1418.

Purchase of Inventory Stock

We are in agreement with these provisions provided for in S. 1418.

Review of Tobacco Grading and Disaster Crop Designation

We favor a thorough review of the tobacco grading system as to the number of grades and the application of current grade standards.

However, we feel strongly that any reference to disaster crop designation should be deleted from S. 1418. Current grade standards if properly applied should be sufficient to identify poor quality offerings.

Investment of Tobacco Inspection Fees

We are in agreement with these provisions as provided for in S. 1418.

With regard to the "tax treatment of contributions and assessments" we would encourage the Committee to seek the adoption of legislation which would eliminate this alleged tax obligation of growers and that it be made retroactive to December 31, 1984. This would be a significant economic benefit to all tobacco growers and we believe is a fair and justifiable one.

In closing, we feel that the basic tobacco program, with careful transitional adjustments as provided within the framework of S. 1418, can provide and maintain the stability so vital to the economic stability of producers, the business communities, and the states where tobacco is produced.

We appreciate the opportunity to convey the views of the Virginia Farm Bureau Federation and urge you to move ahead with tobacco legislation.

II

99TH CONGRESS
1ST SESSION

S. 1418

To amend the Agricultural Adjustment Act of 1938 and the Agricultural Act of 1949 to improve the Tobacco Program, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JULY 10 (legislative day, JULY 8), 1985

Mr. HELMS (for himself, Mr. FORD, Mr. MCCONNELL, Mr. THURMOND, Mr. EAST, Mr. WARNER, Mr. TRIBLE, Mr. MATTINGLY, Mr. HOLLINGS, and Mr. SASSER) introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

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A BILL

To amend the Agricultural Adjustment Act of 1938 and the Agricultural Act of 1949 to improve the Tobacco Program, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Tobacco Program Improvement Act of 1985".

FINDINGS AND PURPOSES

SEC. 2. (a) Congress hereby finds that—

(1) the maintenance of a viable Tobacco Price Support and Production Adjustment Program is in the interests of tobacco producers, purchasers of tobacco,

persons employed directly or indirectly by the tobacco industry, and the localities and States whose economies and tax bases are dependent on the tobacco industry;

(2) the present Tobacco Price Support Program is in jeopardy and in need of reform;

(3) under present law, the levels of price support for tobacco have resulted in market prices for tobacco that are not competitive on the world market;

(4) as a consequence, extremely large amounts of domestic tobacco have been put under loan and placed in the inventories of the producer-owned cooperative marketing associations that administer the Tobacco Price Support Program;

(5) the increased inventories have led to a significant increase in the assessments producers are required to pay to maintain the Tobacco Price Support Program on a "no net cost" basis, and these increasingly large assessments are creating a severe hardship on producers;

(6) the existence of such large inventories poses a threat to the orderly marketing of future crops of tobacco;

(7) producer associations' inventories must be significantly reduced or the Tobacco Price Support Program will collapse;

(8) the Commodity Credit Corporation is threatened with substantial losses on disposition of these inventories should the Tobacco Price Support Program collapse;

(9) it is imperative that such excess inventories of tobacco be disposed of, under the supervision of the Secretary of Agriculture, in a manner that will not disrupt the orderly marketing of new tobacco crops, that will minimize any losses to the Government, and that will be fair and equitable to all tobacco producers and purchasers;

(10) the mutual cooperation of tobacco producers, tobacco purchasers, producer associations, and the Secretary of Agriculture is necessary to restore the Tobacco Price Support Program to a stable condition and prevent substantial losses to taxpayers that would result from the program's collapse;

(11) restoration of stability to the Tobacco Price Support Program through a sharing of the cost of that program by purchasers of tobacco along with producers of tobacco is necessary to prevent undue burdens on, or obstruction of, interstate and foreign commerce in tobacco; and

(12) the system of grading tobacco should be thoroughly reviewed to ensure that grades are assigned to tobacco that properly state the quality of such tobacco.

(b) The purposes of this Act are—

(1) to encourage cooperation among tobacco producers, tobacco purchasers, and the Secretary of Agriculture in reducing tobacco price support levels, assessment costs, the size of producer associations' inventories and the taxpayers' exposure to large budget outlays;

(2) to adjust the method by which price support levels and production quotas are calculated to reflect actual market conditions;

(3) to facilitate the purchase and sale of Flue-cured and Burley tobacco presently in the inventories of producer associations through which producers of Flue-cured and Burley tobacco are provided price support;

(4) to provide that purchasers and producers of domestic tobacco will share equally in the cost of maintaining the Tobacco Price Support Program at no net cost to the taxpayers; and

(5) to expedite reform of the system of grading tobacco so that grades assigned to tobacco more accurately reflect the quality of such tobacco.

PRICE SUPPORT ADJUSTMENTS

SEC. 3. Effective for the 1985 and subsequent crops of tobacco, section 106 of the Agricultural Act of 1949 (7 U.S.C. 1445) is amended—

(1) in subsection (f)—

(A) by striking out "and for the 1985 crop of any kind of tobacco (other than Flue-cured and Burley tobacco) for which marketing quotas are in effect or are not disapproved by producers" in paragraph (3); and

(B) by striking out paragraph (4) and inserting in lieu thereof the following:

"(4) For the 1985 crop of Burley tobacco, the support level shall be $1.449 per pound.

"(5)(A) Except as provided in subparagraph (B), for the 1985 and each subsequent crop of any kind of tobacco (other than Flue-cured and Burley tobacco) for which marketing quotas are in effect or are not disapproved by producers, the support level shall be the level in cents per pound at which the immediately preceding crop was supported, plus or minus, respectively, the amount by which (i) the support level for the crop for which the determination is being made, as determined under subsection (b), is greater or less than (ii) the support level for the immediately preceding crop, as determined under subsection (b), as that difference may be adjusted by the Secretary under subsection (d) if the support level under clause (i) is greater than the support level under clause (ii).

"(B) Notwithstanding subparagraph (A) of this paragraph and subsection (d), the Secretary, if requested by the board of directors of the association through which price support for the respective kind of tobacco specified in subparagraph (A) is made available to producers, may reduce the support level for such kind of tobacco to the extent requested by the association to more accurately reflect the market value and improve the marketability of such tobacco.

"(6)(A) For the 1986 and each subsequent crop of Flue-cured and Burley tobacco for which marketing quotas are in effect or are not disapproved by producers, the support level shall be the level in cents per pound at which the immediately preceding crop was supported, plus or minus, respectively, an adjustment of not less than 65 per centum nor more than 100 per centum of the total, as determined by the Secretary after taking into consideration the supply of the kind of tobacco involved in relation to demand, of—

"(i) 66.7 per centum of the amount by which 95 per centum of the average price received by farmers for Flue-cured and Burley tobacco, respectively, on the United States auction markets, as determined by the Secretary, during the five marketing years immediately preceding the marketing year for which the determination is being made, excluding the year in which the average price was the highest and the year in which the average price was the lowest in such period, is greater or less than the support level for the immediately preceding crop, and

"(ii) 33.3 per centum of the change, expressed as a cost per pound of tobacco, in the index of prices paid by tobacco growers from January 1 to December 31 of the calendar year immediately preceding the year in which the determination is made.

"(B) For the purposes of subparagraph (A), the average market price for Burley tobacco for the 1984 and each prior applicable marketing year shall be reduced by $0.30 per pound, and the average market price for Flue-cured tobacco for the 1985 and each prior applicable marketing year shall be reduced by $0.30 per pound.

"(C) For the purposes of subparagraph (A), the support level for the 1985 crop of Flue-cured tobacco shall be deemed to be $1.399 per pound.

"(D For the purposes of subparagraph (A), the index of prices paid by tobacco farmers shall include items representing general, variable costs of producing tobacco, as determined by the Secretary, but shall not include the cost of land, risk, overhead, management, purchase or leasing of quota, marketing contributions or assessments, and other costs not directly related to the production of tobacco."; and

(2) by striking out subsection (g).

DETERMINATION OF MARKETING QUOTAS FOR FLUE-CURED AND BURLEY TOBACCO

SEC. 4. (a) Section 301(b) of the Agricultural Adjustment Act of 1938 (7 U.S.C. 1301(b)) is amended—

(1) by adding at the end of paragraph (14) of the following new subparagraphs:

"(C) 'Reserve stock level' in the case of Flue-cured tobacco shall be the greater of (i) one hundred million pounds (farm sales weight), or (ii) 15 per centum of the national marketing quota for Flue-cured tobacco for the marketing year immediately proceding the marketing year for which the level is being determined.

"(D) 'Reserve stock level' in the case of Burley tobacco shall be the greater of (i) fifty million pounds (farm sales weight), or (ii) 15 per centum of the national marketing quota for Burley tobacco for the marketing year immediately preceding the marketing year for which the level is being determined."; and

(2) by adding at the end thereof the following new paragraph:

"(17) 'Domestic manufacturer of cigarettes' means a person that produces and sells more than 1 per centum of the cigarettes produced and sold in the United States.".

(b) Section 317(a)(1) of the Agricultural Adjustment Act of 1938 (7 U.S.C. 1314(a)(1)) is amended—

(1) by striking out "'National marketing quota'" and inserting in lieu thereof "(A) Except as provided in subparagraph (B), 'national marketing quota'"; and

(2) by adding at the end thereof the following new subparagraphs:

"(B) For the 1986 and each subsequent crop of Flue-cured tobacco, 'national marketing quota' for a marketing year means the amount of Flue-cured tobacco, as determined by the Secretary, that is not more than 103 per centum nor less than 97 per centum of the total of—

"(i) the aggregate of the amounts of Flue-cured tobacco that domestic manufacturers of cigarettes estimate they intend to purchase on the United States auction markets or from producers during the marketing year, as compiled and determined under section 320A of this Act;

"(ii) the average annual amount of Flue-cured tobacco exported from the United States during the three marketing years immediately preceding the marketing year for which the determination is being made; and

"(iii) the amount, if any, of Flue-cured tobacco that the Secretary, in his discretion, determines is necessary to increase or decrease the inventory of the producer-owned cooperative marketing association that has entered into a loan agreement with the Commodity Credit Corporation to make price support available to producers of Flue-cured tobacco to establish or maintain such inventory at the reserve stock level for Flue-cured tobacco.

"(C) In determining the amount of Flue-cured tobacco necessary to establish or maintain the inventory of the producer association at the reserve stock level under clause (iii) of subparagraph (B) of this paragraph, the Secretary shall provide for attaining the reserve stock level over a period of five years.".

(c) Section 319 of the Agricultural Adjustment Act of 1938 (7 U.S.C. 1314e) is amended—

(1) in subsection (c)—

(A) by striking out "The national marketing quota" and inserting in lieu thereof "(1) Except as provided in paragraph (3), the national marketing quota";

(B) by designating the third sentence as paragraph (2); and

(C) by adding at the end thereof, as amended by clauses (A) and (B) of this paragraph, the following new paragraph:

"(3)(A) For the 1986 and each subsequent crop of Burley tobacco, the national marketing quota for any marketing year shall be the amount of Burley tobacco, as determined by the Secretary, that is not more than 103 per centum nor less than 97 per centum of the total of—

"(i) the aggregate of the amounts of Burley tobacco that domestic manufacturers of cigarettes estimate they intend to purchase on the United States auction markets or from producers during the marketing year, as compiled and determined under section 320A of this Act;

"(ii) the average annual amount of Burley tobacco exported from the United States during the three marketing years immediately preceding the marketing year for which the determination is being made; and

"(iii) the amount, if any, of Burley tobacco that the Secretary, in his discretion, determines is necessary to increase or decrease the inventories of the producer-owned cooperative marketing associations that have entered into loan agreements with the Commodity Credit Corporation to make price support available to producers of Burley tobacco to establish or maintain such inventories, in the aggregate, at the reserve stock level for Burley tobacco.

"(B) In determining the amount of Burley tobacco necessary to establish or maintain the inventories of the producer associations at the reserve stock level under clause (iii) of subparagraph (A) of this paragraph, the Secretary shall provide for attaining the reserve stock level over a period of five years.

"(C) Notwithstanding subparagraph (A), any downward adjustment in the national marketing quota for Burley tobacco may not exceed the greater of (i) thirty-five million pounds or (ii) 50 per centum of the amount by which the total inventories of Burley tobacco of the producer-owned cooperative marketing associations that have entered into loan agreements with the Commodity Credit Corporation to make price support available to producers of Burley tobacco exceed the reserve stock level for Burley tobacco."; and

(2) by inserting ", except in the case of Burley tobacco," immediately after "*Provided*, That" in the fourth sentence of subsection (e).

(d) Effective for the 1986 and each subsequent crop of tobacco, the Agricultural Adjustment Act of 1938 is amended by inserting after section 320 the following new section:

"SUBMISSION OF PURCHASE INTENTIONS BY CIGARETTE MANUFACTURERS

"SEC. 320A. (a) No later than December 1 of any marketing year with respect to Flue-cured tobacco (December 1, 1985, with respect to the 1986 crop) and January 15 of any marketing year with respect to Burley tobacco (January 15, 1986, with respect to the 1986 crop), each domestic manufacturer of cigarettes shall submit to the Secretary a statement, by kind, of the amount of Flue-cured tobacco and Burley tobacco (for which a national marketing quota is in effect or for which the Secretary has proclaimed a national marketing quota for the next succeeding marketing year) that the manufacturer intends to purchase, directly or indirectly, on the United States auction markets or from producers during the next succeeding marketing year (hereinafter in this section referred to as the 'amount of intended purchases'). The Secretary shall aggregate the statements of the amounts of intended purchases in a manner that will not allow the identification of any manufacturer's amount of intended purchases.

"(b) If any domestic manufacturer of cigarettes fails to submit to the Secretary a statement of its amount of intended purchases, as required by this section, the Secretary shall establish the amount of intended purchases to be attributed to such manufacturer for purposes of this Act based on—

"(1) the amount of intended purchases submitted by such manufacturer under this section for the marketing year immediately preceding the marketing year for which the determination is being made, or

"(2) if such manufacturer did not submit a statement of its amount of intended pruchases for the marketing year immediately preceding the marketing year for which the determination is being made, the most recent information available to the Secretary.

"(c) All information with respect to the amount of intended purchases submitted by domestic manufacturers of cigarettes under this section shall be kept confidential by all officers and employees of the Department of Agriculture. Such information may only be disclosed by them in a suit or administrative hearing brought at the direction, or on the request, of the Secretary, or to which the Secretary or any officer of the United States is a party, and involving enforcement of this Act. Nothing in this section shall be deemed to prohibit the publication by direction of the Secretary of the name of any person violating any provision of this Act, together with a statement of the particular provisions of the Act violated by such person. Any officer or employee of the Department of Agriculture violating the provisions of this subsection shall on conviction be subject to a fine of not more than $1,000 or to imprisonment for not more than one year, or to both, and shall be removed from office.

"(d) Notwithstanding any other provision of law, statements of the amount of intended purchases that are submitted under this section shall be exempt from disclosure under the provisions of section 552 of title 5, United States Code.".

MARKETING QUOTA ANNOUNCEMENT DATE

SEC. 5. (a) Section 312 of the Agricultural Adjustment Act of 1938 (7 U.S.C. 1312) is amended—

(1) by striking out "and February 1 of any marketing year with respect to other kinds of tobacco" in subsection (a) and inserting in lieu thereof "February 1 of any marketing year with respect to Burley tobacco,

and March 1 of any marketing year with respect to other kinds of tobacco"; and

(2) by striking out "and not later than the first day of February with respect to other kinds of tobacco" in subsection (b) and inserting in lieu thereof ", not later than the first day of February with respect to Burley tobacco, and not later than the first day of March with respect to other kinds of tobacco".

(b) Section 319(b) of the Agricultural Adjustment Act of 1938 (7 U.S.C. 1314(b)) is amended by striking out "February 1" each time it appears in the fourth paragraph and inserting in lieu thereof "March 1".

REDUCTION IN EXCESS TOBACCO NOT SUBJECT TO MARKETING PENALTY

SEC. 6. (a) Effective for the 1986 and subsequent crops of tobacco, the Agricultural Adjustment Act of 1938 is amended—

(1) by striking out "110" in paragraph (1) of section 317(g) (7 U.S.C. 1314c(g)(1)) and inserting in lieu thereof "103"; and

(2) by striking out "110" in paragraph (1) of section 319(i) (7 U.S.C. 1314e(i)(1)) and inserting in lieu thereof "103".

(b) Effective for the 1986 and subsequent crops of tobacco, section 106(c) of the Agricultural Act of 1949 (7

U.S.C. 1445(c)) is amended by striking out "110" and inserting in lieu thereof "103".

PURCHASE REQUIREMENTS; PENALTY

SEC. 7. (a) Effective for the 1986 and subsequent crops of tobacco, the Agricultural Adjustment Act of 1938, as amended by section 4 of this Act, is further amended by inserting after section 320A the following new section:

"PURCHASE REQUIREMENTS; PENALTY

"SEC. 320B. (a) At the conclusion of each marketing year, on or before a date prescribed by the Secretary, each domestic manufacturer of cigarettes shall submit to the Secretary a statement, by kind, of the amount of Flue-cured and Burley quota tobacco purchased, directly or indirectly, by such manufacturer during such marketing year. The statement shall include, but not be limited to, the amount of each such kind of tobacco purchased by the manufacturer on the United States auction markets, from producers, and from the post-1984 inventories of the producer-owned cooperative marketing associations that have entered into loan agreements with the Commodity Credit Corporation to make price support available to producers of Flue-cured or Burley tobacco.

"(b)(1) Except as otherwise provided in this subsection, any domestic manufacturer of cigarettes that fails, as determined by the Secretary after notice and opportunity for a hearing, to purchase during a marketing year on the United

States auction markets, from producers, or from the post-1984 inventories of the producer associations described in subsection (a) a quantity of Flue-cured quota tobacco and a quantity of Burley quota tobacco equal to at least 90 per centum of the amount of the intended purchases of Flue-cured tobacco and Burley tobacco, respectively, submitted by such manufacturer or established by the Secretary for such manufacturer for that marketing year under section 320A of this Act (as that amount may be reduced under paragraph (2) of this subsection) shall be subject to a penalty as prescribed in subsection (c) of this section.

"(2)(A) If the total amount of Flue-cured or Burley quota tobacco, respectively, marketed by producers at auction in the United States during the marketing year in question is less than the national marketing quota (including any adjustments for overmarketings or undermarketings) for that kind of tobacco for that marketing year, the amount of intended purchases of each domestic manufacturer of cigarettes, for purposes of paragraph (1) of this subsection, shall be reduced by a percentage equal to the percentage by which the total amount marketed at auction in the United States during the marketing year is less than the national marketing quota (including any adjustments for overmarketings or undermarketings) for that kind of tobacco for the marketing year.

"(B) For purposes of this section, the term 'marketed' shall include disposition of tobacco by consigning the tobacco to a producer association described in subsection (a) of this section for a price support advance.

"(3) No domestic manufacturer of cigarettes shall be subject to a penalty under this section for any marketing year in which the aggregate amount of purchases of Flue-cured and Burley quota tobacco, respectively, on the United States auction markets, from producers, or from the post-1984 inventories of the producer associations described in subsection (a) of this section by all domestic manufacturers of cigarettes is at least 90 per centum of the aggregate amount of the intended purchases of Flue-cured and Burley tobacco, respectively, submitted by all such manufacturers or established by the Secretary for such manufacturers for that marketing year under section 320A of this Act (as such amount may be reduced under paragraph (2) of this subsection).

"(c) The amount of any penalty to be imposed on a manufacturer under this section shall be determined by multiplying (1) twice the per pound assessment (as determined under section 106A or 106B of the Agricultural Act of 1949 (7 U.S.C. 1445–1 and 1445–2)) for the kind of tobacco involved by (2) the amount by which the purchases by such manufacturer on the United States auction markets, from producers, or from the post-1984 inventories of the producer associations described in subsection (a) of the Flue-cured and Burley quota tobacco, respectively, for the marketing year are less than 90 per centum of the amount of intended purchases of such kinds of tobacco, respectively, submitted by the manufacturer or established by the Secretary for such manufacturer for that marketing year under section 320A of this Act (as that amount may be reduced under paragraph (2) of subsection (b) of this section).

"(d) An amount equivalent to the penalty collected by the Secretary under this section shall be transmitted by the Secretary to the appropriate producer-owned cooperative marketing association that has entered into a loan agreement with the Commodity Credit Corporation to make price support available to producers of Flue-cured or Burley tobacco, as the case may be. Each association to which amounts are transmitted by the Secretary under this section shall deposit such amounts in its No Net Cost Fund or Account in accordance with sections 106A or 106B of the Agricultural Act of 1949.

"(e) The provisions of subsections (c) and (d) of section 320A of this Act shall apply to information submitted by domestic manufacturers of cigarettes under this section with respect to the amount of purchases of Flue-cured and Burley quota tobacco during a marketing year.

"(f) As used in this section, the term 'quota tobacco' means any kind of tobacco for which marketing quotas are in effect or for which marketing quotas are not disapproved by producers.".

(b) Effective for the 1986 and subsequent crops of tobacco, the last sentence of section 372(b) of the Agricultural Adjustment Act of 1938 (7 U.S.C. 1372(b)) is amended by striking out "The" and inserting in lieu thereof "Except as provided in section 320B of this Act, the".

ASSESSMENTS TO NO NET COST FUNDS OR ACCOUNTS

SEC. 8. (a) Effective for the 1986 and subsequent crops of tobacco, section 106A of the Agricultural Act of 1949 (7 U.S.C. 1445-1) is amended—

(1) in subsection (a)—

(A) by striking out "and" at the end of paragraph (5);

(B) by inserting after paragraph (5) a new paragraph to read as follows:

"(6) the term 'purchaser' means any person who purchases, either directly or indirectly for the person's own account or for the account of another, Flue-cured or Burley quota tobacco in the United States; and"; and

(C) by redesignating paragraph (6) as paragraph (7);

(2) by inserting "or paid by or on behalf of purchasers" immediately after "producer-members" in the second sentence of subsection (c);

(3) in subsection (d)—

(A) by striking out "and" at the end of clause (i) of paragraph (1)(A);

(B) by inserting after clause (ii) of paragraph (1)(A) the following new clause:

"(iii) each purchaser of Flue-cured and Burley quota tobacco shall pay to the appropriate association, for deposit in the association Fund, an assessment, in an amount determined from time to time by the association with the approval of the Secretary, with respect to purchasers of all such kind of tobacco marketed by a producer from a farm (including purchases of such tobacco from the 1986 and subsequent crops from the association); and";

(C) by inserting immediately before the last sentence of paragraph (1) the following: "The amount of producer contributions and purchaser assessments shall be determined in such a manner that producers and purchasers share equally in maintaining an association's Fund. In making such determination with respect to purchaser assessments, only 1985 and subsequent crops of Flue-cured and Burley quota tobacco shall be taken into account.";

(D) by inserting "and assessments" immediately after "contributions" in the last sentence of paragraph (1);

(E) by striking out paragraph (2) and inserting in lieu thereof the following:

"(2) require that any producer contribution or purchaser assessment to be paid under paragraph (1) shall be collected—

"(A) from the person who acquired the tobacco involved from the producer, but an amount equal to the producer contribution may be deducted by the purchaser from the price paid to such producer in case such tobacco is marketed by sale;

"(B) if the tobacco involved is marketed by a producer through a warehouseman or agent, from such warehouseman or agent who may deduct an amount equal to the producer contribution from the price paid to the producer and who may add an amount equal to the purchaser assessment to the price paid by the purchaser; and

"(C) if the tobacco involved is marketed by a producer directly to any person outside the United States, from the producer who may add an amount equal to the purchaser assessment to the price paid by the purchaser;";

(F) by striking out "producers who contribute" in paragraph (3) and inserting in lieu thereof "producers and purchasers who contribute or pay";

(G) by striking out "and" at the end of paragraph (5);

(H) by inserting "effective for the 1982 through 1985 crops of quota tobacco", immediately after the paragraph designation in paragraph (6);

(I) by striking out the period at the end of paragraph (6) and inserting in lieu thereof "; and"; and

(J) by inserting after paragraph (6) the following new paragraph:

"(7) effective for the 1986 and subsequent crops, provide, in loan agreements between the Corporation and an association, that if the Secretary determines that the amount in the Fund or the net gains referred to in paragraph (5) exceed the amounts necessary for the purposes specified in this section, the association, with the approval of the Secretary, may suspend the payment and collection of contributions and assessments under this section on terms and conditions established by the association, with the approval of the Secretary."; and

(4) by adding at the end thereof the following new subsection:

"(h)(1) Each person who fails to collect any contribution or assessment as required by subsection (d)(2) of this section and remit such contribution or assessment to the association, at such time and in such manner as may be prescribed by the Secretary, shall be liable, in addition to any amount due, to a marketing penalty at a rate equal to 75 per centum of the average market price (calculated to the nearest whole cent) for the kind of tobacco involved for the immediately preceding year on the quantity of tobacco as to which the failure occurs. The Secretary may reduce any such marketing penalty in such amount as the Secretary determines equitable in any case in which the Secretary determines that the failure was unintentional or without knowledge on the part of the person concerned. Any penalty provided for under this paragraph shall be assessed by the Secretary after notice and opportunity for a hearing.

"(2) Any person against whom a penalty is assessed under this subsection may obtain review of such penalty in an appropriate district court of the United States by filing a civil action in such court not later than thirty days after such penalty is imposed. The Secretary shall promptly file in such court a certified copy of the record on which the penalty is based.

"(3) The district courts of the United States shall have jurisdiction to review and enforce any penalty imposed under this subsection.

"(4) An amount equivalent to any penalty collected by the Secretary under this subsection shall be transmitted by the Secretary to the appropriate association, for deposit in such association's Fund.

"(5) The remedies provided in this subsection shall be in addition to, and not exclusive of, other remedies that may be available.".

(b) Effective for the 1986 and subsequent crops of tobacco, the heading of section 106A of the Agricultural Act of 1949 (7 U.S.C. 1445–1) is amended to read as follows: "Producer Contributions and Purchaser Assessments for No Net Cost Tobacco Fund".

(c) Effective for the 1986 and subsequent crops of tobacco, section 106B of the Agricultural Act of 1949 (7 U.S.C. 1445–2) is amended—

(1) in subsection (a)—

(A) by striking out "and" at the end of paragraph (6);

(B) by striking out the period at the end of paragraph (7) and inserting in lieu thereof "; and"; and

(C) by adding at the end thereof a new paragraph to read as follows:

"(8) the term 'purchaser' means any person who purchases, either directly or indirectly for the person's own account or for the account of another, Flue-cured or Burley quota tobacco in the United States.";

(2) by inserting "and purchasers" immediately after "producers" in subsection (c)(1);

(3) in subsection (d)—

(A) by inserting at the end of paragraph (1) the following: "The Secretary shall also require (in lieu of any requirement under section 106A(d)(1)) that each purchaser of Flue-cured and Burley quota tobacco shall pay to the Corporation, for deposit in such association's Account, assessments, as determined under paragraph (2) and collected under paragraph (3), with respect to purchasers of all such kind of tobacco marketed by a producer from a farm (including purchases of such tobacco from the 1986 and subsequent crops from the association).";

(B) by striking out "area. Such amount" in paragraph (2) and inserting in lieu thereof "area and the amount of the assessment to be paid by purchasers of tobacco. The amount of the assessment to be paid by producers and purchasers shall be determined in such a manner that producers and purchasers share equally in maintaining such association's Account. In making such determination with respect to the purchaser assessment, only 1985 and subsequent crops of Flue-cured and Burley quota tobacco shall be taken into account. The amount of the assessment";

(C) by inserting at the end of paragraph (2) the following: "Notwithstanding the foregoing, the amount of any assessment that is determined by the Secretary for the 1986 and subsequent crops of Burley quota tobacco shall be determined without regard to any net losses that the Corporation may sustain under its loan agreements with such association with respect to the 1983 crop of such tobacco."; and

(D) by amending paragraph (3) to read as follows:

"(3)(A) Except as provided in subparagraph (B), any assessment to be paid by a producer or a purchaser under paragraph (1) shall be collected from the person who acquired the tobacco involved from such producer, but an amount equal to the producer assessment may be deducted by the purchaser from the price paid to such producer in case such tobacco is marketed by sale.

"(B) If tobacco of the kind for which an Account is established is marketed by a producer through a warehouseman or other agent, both the producer and the purchaser assessment shall be collected from such warehouseman or agent who may deduct an amount equal to the producer assessment from the price paid to the producer and who may add an amount equal to the purchaser assessment to the price paid by the purchaser. If tobacco of the kind for which an Account is established is marketed by a producer directly to any person outside the United States, both the producer and the purchaser assessment shall be collected from the producer who may add an amount equal to the purchaser assessment to the price paid by the purchaser."; and

(4) by adding at the end thereof the following new subsection:

"(j)(1) Each person who fails to collect any assessment as required by subsection (d)(3) of this section and remit such assessment to the Corporation, at such time and in such manner as may be prescribed by the Secretary, shall be liable, in addition to any amount due, to a marketing penalty at a rate equal to 75 per centum of the average market price (calculated to the nearest whole cent) for the kind of tobacco involved for the immediately preceding year on the quantity of tobacco as to which the failure occurs. The Secretary may reduce any such marketing penalty in such amount as the Secretary determines equitable in any case in which the Secretary determines that the failure was unintentional or without knowledge on the part of the person concerned. Any penalty provided for under this paragraph shall be assessed by the Secretary after notice and opportunity for a hearing.

"(2) Any person against whom a penalty is assessed under this subsection may obtain review of such penalty in an appropriate district court of the United States by filing a civil action in such court not later than thirty days after such penalty is imposed. The Secretary shall promptly file in such court a certified copy of the record on which the penalty is based.

"(3) The district courts of the United States shall have jurisdiction to review and enforce any penalty imposed under this subsection.

"(4) An amount equivalent to any penalty collected by the Secretary under this subsection shall be transmitted by the Secretary to the Corporation, for deposit in the appropriate association's Account.

"(5) The remedies provided in this subsection shall be in addition to, and not exclusive of, other remedies that may be available.".

(d) The Secretary of Agriculture shall implement the provisions of sections 106, 106A, and 106B of the Agricultural Act of 1949 (as amended by this Act), and sections 312, 317 (a) and (g), 319(b), (c) and (i), 320A, and 320B of the Agricultural Adjustment Act of 1938 (as amended or added by this Act), and section 9 of this Act without regard to the provisions requiring notice and other procedures for public participation in rulemaking contained in section 553 of title 5, United States Code, or in any directive of the Secretary.

PURCHASE OF INVENTORY STOCK

SEC. 9. Notwithstanding any other provision of law, in the interest of reducing or eliminating the excessive inventories of Flue-cured and Burley tobacco held by associations from the 1976 through 1984 crops, and in order to provide for the orderly disposition of such excessive inventories of tobacco in a manner that will not disrupt the orderly marketing of new tobacco crops and minimize any losses to the Government:

(a)(1) The producer-owned cooperative marketing association that has entered into a loan agreement with the Commodity Credit Corporation to make price support available to producers of Flue-cured tobacco shall offer to sell its stocks of Flue-cured tobacco from the 1976 through 1984 crops as provided in this section.

(2) Each producer-owned cooperative marketing association that has entered into a loan agreement with the Commodity Credit Corporation to make price support available to producers of Burley tobacco shall offer to sell its stocks of Burley tobacco from the 1982 and 1984 crops as provided in this section.

(3)(A) No later than thirty days after the date of enactment of this Act, the Commodity Credit Corporation shall acquire title to the Burley tobacco from the 1983 crop that is pledged as security for loans on such tobacco by calling the loans on such tobacco. The Corporation shall, then, offer such tobacco for sale at such times, in such quantities, and subject to such conditions as the Corporation deems appropriate.

(B) If the Commodity Credit Corporation has not sold all of the stocks of the 1983 crop of Burley tobacco within two years from the date the Corporation calls the loans on such tobacco, the Corporation may offer to sell to domestic manufacturers of cigarettes the remaining stocks of such tobacco as provided in this section.

(b)(1)(A) The stocks of Flue-cured tobacco from the 1976 through 1984 crops shall be offered for sale at the base prices, including carrying charges, in effect as of the date of the offer, reduced by 90 per centum for Flue-cured tobacco from the 1976 through 1981 crops and reduced by 10 per centum for Flue-cured tobacco from the 1982 through 1984 crops.

(B) The purchasers of the 1976 through 1984 crop Flue-cured tobacco shall pay the full carrying charges that have accrued to such tobacco from the date of the offer made hereunder to the date that such tobacco is removed from the inventory of the association.

(2)(A) The stocks of Burley tobacco from the 1982 crop shall be offered for sale at the listed base price in effect as of July 1, 1985.

(B) The stocks of Burley tobacco from the 1984 crop shall be offered for sale at the associations' costs for such tobacco as of the date of enactment of this Act.

(C) The purchasers of the 1982 crop Burley tobacco shall pay the full carrying charges that have accrued to such tobacco.

(D) The purchasers of the 1984 crop Burley tobacco shall pay the full carrying charges that have accrued to such tobacco from the date of enactment of this Act to the date such tobacco is removed from the inventories of the associations.

(3)(A) After the two-year period specified in subsection (a)(3)(B) of this section has expired, if the Commodity Credit Corporation offers to sell its stocks of Burley tobacco from the 1983 crop to domestic manufacturers of cigarettes, such stocks shall be offered for sale at the associations' costs as of the date on which the Corporation calls the loans on such tobacco, reduced by 90 per centum.

(B) Neither tobacco producers nor tobacco purchasers shall be responsible for carrying charges that accrue to the 1983 crop Burley tobacco after the date on which the Commodity Credit Corporation calls the loans on such tobacco.

(c)(1)(A) Each domestic manufacturer of cigarettes may enter into agreements to purchase inventory stocks of Flue-cured and Burley tobacco, as set forth in this section.

(B) Such manufacturers, in order to be eligible for the reductions in price set forth in this section, shall enter into such agreements as soon as practicable, but no later than ninety days, after the date of enactment of this Act.

(C) Such agreements shall provide that, over a period of time, each participating domestic manufacturer of cigarettes shall purchase a percentage of the stocks of Flue-cured and Burley tobacco held by the producer-owned coopertive marketing associations at the close of the 1984 marketing year or, with respect to the 1983 crop of Burley tobacco, by the Commodity Credit Corporation at the time the Corporation offers such tobacco for sale to domestic manufacturers of cigarettes under this section. The period of time referred to in the preceding sentence may not exceed eight years from the date of enactment of this Act with respect to Flue-cured tobacco, five years from the date of enactment of this Act with respect to Burley tobacco from the 1982 and 1984 crops, and five years from the date the Commodity Credit Corporation offers the 1983 crop of Burley tobacco for sale to domestic manufacturers of cigarettes with respect to the 1983 crop of Burley tobacco.

(2)(A) The percentage to be purchased by each participating manufacturer shall be at least equal to such participating manufacturer's respective percentage of the total quantity of net cigarettes manufactured for use as determined by the Secretary of Agriculture under this paragraph on the basis of the monthly reports ("Manufacturer of Tobacco Products—Monthly Reports") submitted (on ATF Form 3068) by manufacturers of tobacco products to the Bureau of Alcohol, Tobacco and Firearms of the Department of the Treasury. The Secretary of Agriculture shall request from the Secretary of the Treasury copies of such monthly reports necessary to make the determinations under this section, and the Secretary of the Treasury, notwithstanding any other provision of law, is hereby authorized to release and disclose such information to the Secretary of Agriculture.

(B) "Net cigarettes manufactured for use" shall be computed by subtracting the cumulative figures entered for large and small cigarettes in item 16f of ATF Form 3068 ("Reduction to tobacco") from the cumulative figures entered for large and small cigarettes in item 7 of such form ("Manufactured").

(C) The percentage to be purchased by each participating manufacturer, which shall be determined on the date of enactment of this Act and annually thereafter over the course of the respective buy-out periods set forth in this subsection, shall be determined by dividing the manufacturer's average of net cigarettes manufactured for use for the twelve-month period immediately preceding the appropriate determination date (the date of enactment of this Act and annually thereafter over the course of the respective buy-out periods set forth in this subsection) by the aggregate of all domestic cigarette manufacturers' average net cigarettes manufactured for use for such twelve-month period.

(D) The amount of tobacco to be purchased by each participating manufacturer shall be determined annually and shall be based on the manufacturer's percentage of net cigarettes manufactured for use, as determined under subparagraph (C) of this paragraph, multiplied by the appropriate annual amount to be withdrawn from the inventories of the associations or the Commodity Credit Corporation. The appropriate annual amount to be withdrawn from inventories shall be—

(i) 12½ per centum of the inventories of Flue-cured tobacco from the 1976 through 1984 crops on hand on the date of enactment of this Act;

(ii) 20 per centum of the inventories of Burley tobacco from the 1982 and 1984 crops on hand on the date of enactment of this Act; and

(iii) 20 per centum of the inventories of Burley tobacco from the 1983 crop held by the Commodity Credit Corporation on the date two years after the call of the loans on such tobacco by the Corporation.

(E) Any purchases by a manufacturer from the inventories of the associations or from the Commodity Credit Corporation for a crop covered by this section in any year of the buy-out period that exceed the amount of the manufacturer's purchases required under the agreement, as determined under this section, shall be applied against future purchases required of such manufacturer.

(3) In carrying out this section, manufacturers may confer with one another and, separately or collectively, with associations, the Secretary of Agriculture, and the Commodity Credit Corporation as may be necessary or appropriate to effectuate the provisions of this section and the purposes of this Act.

(d)(1) Each agreement entered into under this section shall be submitted to the Secretary of Agriculture for review and approval. In the case of an agreement to purchase tobacco from the inventory of a producer association, the agreement shall be submitted by the association. No agreement may become effective until approved by the Secretary.

(2) The Secretary of Agriculture shall not approve any agreement submitted under this section unless the Secretary has determined that—

(A) the agreement will not unduly impair or disrupt the orderly marketing of current and future tobacco crops during the term of the agreement and is otherwise consistent with the purposes of this Act; and

(B) the price and other terms of sale are uniform and nondiscriminatory among various purchasers.

(e) The provisions of subsections (c) and (d) of section 320A of the Agricultural Adjustment Act of 1938 shall apply to information submitted by domestic manufacturers of cigarettes under this section with respect to net cigarettes manufactured for use, including information provided on ATF Form 3068.

REVIEW OF TOBACCO GRADING SYSTEM AND DISASTER CROP DESIGNATION

SEC. 10. (a)(1) The Secretary of Agriculture shall conduct a comprehensive study of the methods and procedures for grading tobacco marketed in the United States. In carrying out such study, the Secretary shall evaluate, among other things—

(A) the extent to which grades assigned to tobacco accurately reflect the quality of such tobacco,

(B) the extent to which the number of grades of tobacco affects the operation of the grading system, and

(C) the competence and independence of tobacco graders.

(2) The Secretary shall also study the feasibility and desirability of providing for a grade that would be used to designate tobacco that is of such poor quality as a result of a natural disaster as to affect substantially its marketability and of establishing a price support level, if any, for such tobacco which may be adjusted by the Secretary as necessary to facilitate the sale of such tobacco and protect the no net cost funds or accounts.

(b) In carrying out the studies specified in subsection (a) of this section, the Secretary of Agriculture shall appoint an advisory committee composed of producers of tobacco, purchasers of tobacco, persons involved in providing tobacco grading services, and such others as the Secretary deems appropriate. The advisory committee shall meet regularly to evaluate and make recommendations to the Secretary with respect to, among other things, the operation of the tobacco grading system, criteria for designating disaster crops, and the establishment of disaster grades.

(c)(1) No later than one hundred and twenty days after the enactment of this Act, the Secretary of Agriculture shall report the results of the studies required under subsection (a), together with any recommendations for necessary legislation, to the Committee on Agriculture of the House of Representatives and the Committee on Agriculture, Nutrition, and Forestry of the Senate.

(2) As soon as practicable after submission of the report required in paragraph (1) of this subsection, but no later than the opening of the marketing season for the 1986 crop of Flue-cured tobacco, the Secretary shall implement any recommendations made in such report that may be implemented by the Secretary under existing authority.

INVESTMENT OF TOBACCO INSPECTION FEES

SEC. 11. Section 5 of The Tobacco Inspection Act (7 U.S.C. 511d) is amended—

(1) by inserting after the ninth sentence the following new sentences: "Any funds realized from the collection of fees or charges authorized under this section and section 6 and credited to the current appropriation account incurring the cost of services provided under this section and section 6 may be invested by the Secretary in insured or fully collateralized, interest-bearing accounts or, at the discretion of the Secretary,

by the Secretary of the Treasury in United States Government debt instruments. Any income realized from this activity may be used to pay the expenses of the Secretary of Agriculture incident to providing services under this Act or reinvested in the manner authorized in the preceding sentence."; and

(2) by striking out "Such fees and charges" in the twelfth sentence (as redesignated by paragraph (1) of this section) and inserting in lieu thereof "The fees and charges authorized in this section".

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